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ANNUAL
REPORT
2007



EUROBANCSHARES, INC.



Performance Highlights

We believe the following were key indicators of our performance and results of operations in 2007:

- our total assets grew to \$2.751 billion at the end of 2007, representing an increase of 10.02%, from \$2.501 billion at the end of 2006;
- our gross loans and leases grew to \$1.859 billion at the end of 2007, representing an increase of 6.17%, from \$1.751 billion at the end of 2006;
- our total revenue grew to \$182.0 million in 2007, representing an increase of 7.09%, from \$169.9 million in 2006;
- our investment securities grew to \$751.3 million at the end of 2007, representing an increase of 30.0%, from \$577.9 million at the end of 2006;
- our nonperforming assets increased to \$111.6 million, or by 77.07%, in 2007, from \$63.0 million at the end of 2006;
- our provision for loan and lease losses grew to \$25.3 million in 2007, representing an increase of 49.96%, from \$16.9 million in 2006;

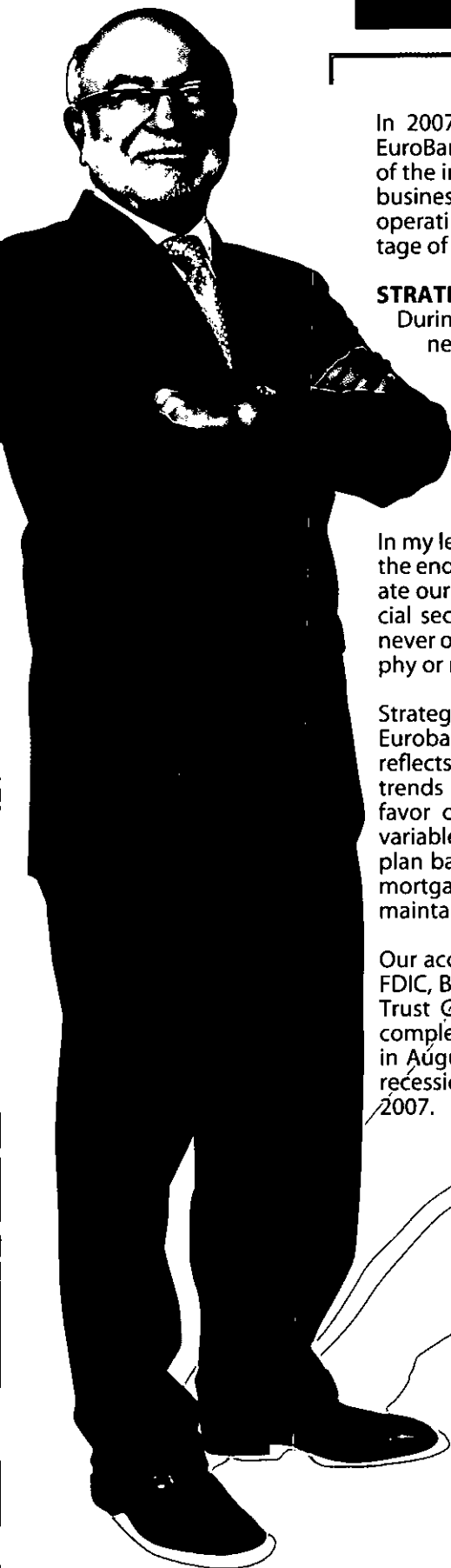
These items, as well as other factors, resulted in a net income for 2007 of \$3.2 million, compared to \$8.0 million in 2006, or \$0.13 per common share for 2007, compared to \$0.37 per common share for 2006, assuming dilution.

Index

Chairman's Message	1
Board of Directors	4
Management Team	6
EuroBancshares, Inc.	7
Support Staff Departments	9
Mission / Vision	10
Institutional Values and Strategic Imperatives	11
Operating Ratios and Other Selected Data	12
Corporate Directory	Inside Back Cover



Chairman's Message to our Shareholders and Customers



In 2007, another challenging year for banking in Puerto Rico's distressed economy, EuroBancshares, Inc. continued to grow. How did we differentiate ourselves from the rest of the industry? Just as we expect a solid financial plan when financing small- to mid-size businesses, the customer niche we serve, we too have maintained our own financial and operating plan that has sustained growth and profitability, positioning us to take advantage of improving conditions in the years to come.

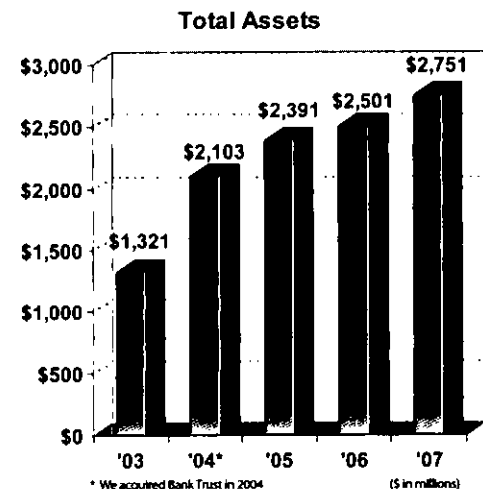
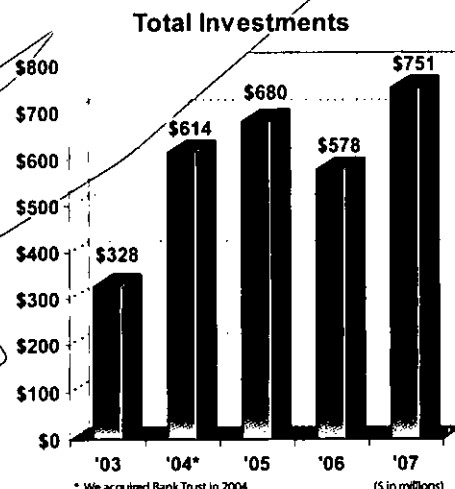
STRATEGIC PLANNING

During 2007, we continued to pursue our strategic initiatives of expanding our branch network, while investing in our residential mortgage and trust operations to position them for future growth. Simultaneously, we conservatively expanded our defined niche markets, acquired securities that improved the average yield and took advantage of attractive tax benefits associated with our international banking entity. We also consolidated our corporate offices and operating locations into a new headquarters building during the last quarter of 2007 to improve efficiencies, enhance economies of scale and allow us to become more agile.

In my letter to shareholders five years ago, I stated: "The strategic planning cycle begun at the end of 1993, called for providing the kind of personalized service that would differentiate our small bank in the marketplace. The Bank would turn its attention to the commercial sector, and look for opportunities for expansion that allowed a measured growth, never outstripping its ability to provide the personalized service at the core of our philosophy or reducing the quality of our loan and investment portfolios."

Strategic planning has been the flywheel of the engine that has driven growth at Eurobank at a relatively steady pace through good and bad. By sticking to our plan, which reflects both our mission and our vision, we have purposely avoided following short-term trends and improvised actions, which so frequently backfire for banking institutions, in favor of a conservative, consistent and steady approach. As a flywheel counteracts variable torque during the strokes of an engine's cylinders, the Bank's dynamic strategic plan balances the performance of its major parts—construction loans, commercial loans, mortgages, branches, leasing operations and the investment portfolio—building and maintaining the momentum that carries us along an often bumpy road.

Our accretive strategic acquisitions—deposits of the former Banco Nacional, NA from the FDIC, Banco Financiero of Puerto Rico, The Prime Bank of Puerto Rico and The Bank and Trust Company of Puerto Rico—have provided the Bank a favorable mix of portfolios complementing and expanding our niche. When we completed our initial public offering in August 2004, we were, in terms of assets, a \$1.970 billion institution. Despite several recessionary years, we have grown our assets organically to \$2.751 billion at year end 2007.

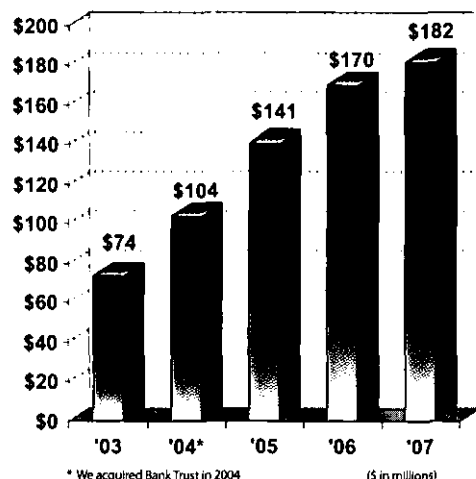


As in the past, we are always willing to consider accretive strategic acquisitions, but we have shifted to strategic opportunities to add talented people in areas to enhance our existing operations or to expand our product mix. Furthermore, to fuel our internal growth, we added a net three branches which, together with our investment in technology for state-of-the-art Internet banking and our "first in market" remote check capture system, which allows customers to make check deposits from the comfort of their businesses, have made our services accessible and convenient to a significant majority of the Puerto Rican population. We believe our branches are located within a convenient drive for approximately 80% of the island's population.

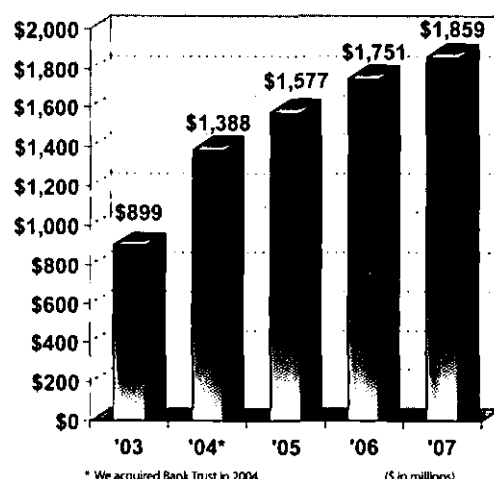
2007 RESULTS

The size and strong capital base of EuroBancshares, Inc., combined with highly qualified and motivated associates and a proactive management that quickly responds to current situations, resulted in growth in most major areas. Total revenue, total net loans, particularly construction and commercial loan originations, total interest income and total non-interest income all increased, which we believe is especially impressive considering negative or flat local industry trends in these areas.

Total Revenues



Gross Loans and Leases

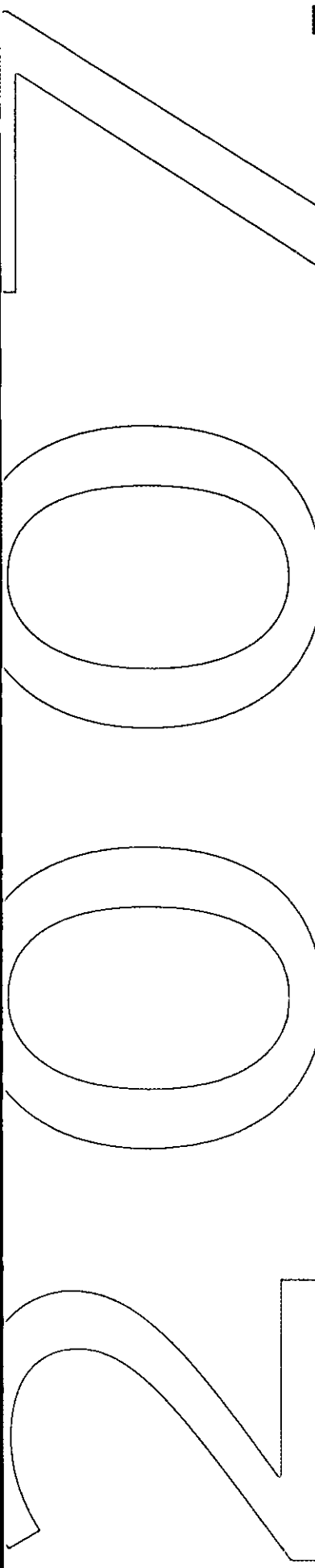


Unfortunately, our ability to generate income in a difficult environment was more than offset by the increased cost of borrowing, primarily during the first nine months of 2007. It was also offset by increased non-interest expense reflecting our growth, with three new branches and the consolidation of operations in our new headquarters building. The most important factor affecting our ability to generate income was related to the local economic recession. Credit quality deteriorated and nonperforming loans increased significantly, resulting in an increase of \$8.4 million in provisions for loan and lease losses (+49.96%, versus a year ago) despite a very slight drop in total net charge-offs at year end 2007 versus year end 2006. Notwithstanding the stringent criteria previously applied to our current customers, a number of them have encountered difficulties during the current recession. The bottom line result for the Company was a much smaller profit in 2007, \$3.2 million compared to \$8.0 million in 2006.

KEY ACHIEVEMENTS

There are a number of achievements in 2007 that we should be able to expand upon to continue many of our growth trends. As we continue to tighten credit standards and controls, a larger portion of loans are secured and have variable interest rates tied to prime. Real estate secured loans at year end 2007 represented 59.45% of our total loan and lease portfolio, an increase of 5.63% from the previous year end total of 53.82%.

As part of our strategic plan, we have decreased the number of nonperforming auto leases, reducing that portfolio, and effectively dealing with the disposition of repossessed vehicles. Consumer loans, which carry increased credit risk and have historically represented a small part of our total loan and lease portfolio, declined by \$2.9 million and now represent only 3.15% of the total loan and lease portfolio versus 3.52% in 2006.



It is unlikely that we will see a marked improvement in our earnings until we see progress in the island's economic situation and relief from the fierce and sometimes irrational competition for deposits brought about by some of our peers. We expect to continue working with our current loan customers, paying particular attention to those who have, or are at a risk of having, nonperforming loans. We will jointly seek solutions to overcome their current difficulties, another example of the personalized service that Eurobank "Tu Banco Personal" offers. By following this strategy, we hope to maintain or decrease the level of charge-offs in 2008 – just as we did in 2007. As before, we expect the flywheel now in full motion to continue to provide us with further safe and sound growth in the future.

Just as EuroBancshares management looks after its clients, it remains aware of its responsibilities toward EuroBancshares stockholders. At year's end, stockholder equity increased by \$10.0 million representing a 5.91% increase versus year-end 2006 totals.

COMMUNITY INVOLVEMENT

We are also strongly committed to the communities we serve. The Company takes an active role in supporting many charities, helping community organizations and supporting cultural initiatives that promote a better quality of life for individuals. As part of our corporate social responsibility, we sponsor sports, educational and cultural events, programs of nonprofit organizations, and community activities, providing donations as well as encouraging the active participation of our employees.

CORPORATE GOVERNANCE

The EuroBancshares Board of Directors periodically updates our Corporate Governance Guidelines as well as our Code of Business Conduct and Ethics. Our Company's reputation is the sum of the honesty and integrity of our directors, officers and employees. The Code is designed to protect our reputation, and to continue to promote transparent reporting and compliance with laws, rules and regulations in the conduct of the Company's business.

CLOSING

Despite credit deterioration resulting from the continuing recession in 2007, the ongoing successful execution of our strategic plan allowed us to maintain a steady course. We have continued to generate profits and growth in key loan sectors, while spending wisely to position the Bank to take advantage of improving conditions in the near future.

Our heartfelt thanks to Diana López Feliciano, Esq., who served as a director of the Bank and EuroBancshares and a member of the Company's audit, compliance and trust committees from 2001 through 2007. In her place, I welcome noted attorney Jaime Sifre Rodríguez, Esq., founding partner of Sánchez Betances, Sifre & Muñoz Noya, PSC. I also welcome Carlos Rom, Jr., as executive vice president, responsible for managing and administering the branch network, marketing, strategic planning and business development. He is a highly regarded businessman and banker with close to 30 years of experience.

On behalf of our entire talented and dedicated team of associates as well as our directors, I thank you, our customers and shareholders, for your continued support and confidence.

Sincerely,



Rafael Arrillaga-Torréns, Jr.
Chairman of the Board, President and CEO

For important information on "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 contained in this letter, please see the caption "Forward Looking Statements" in the Form 10-K accompanying this letter.



Board of Directors

Front

Rafael Arrillaga - Torrén, Jr.
Chairman of the Board
President and CEO

Back

Ricardo Levy Echeandía
Lead Independent Director
President, Francisco Levy Hijo, Inc.
(Back)

Antonio R. Pavía Bibiloni
President, Bartolo, Inc.

Juan Gómez - Cuétara Aguilar
CFO, Risi, S.A.



Front

Pedro Feliciano Benítez
President, Las Piedras
Construction Company

Back

Luis F. Hernández Santana, CPA
Managing Partner, Torres, Hernández &
Punter, CPA, CSP

Plácido González Córdova
President, Empresas González, Inc.

William Torres Torres, CPA
Principal Partner, Torres CPA
Group

Lcdo. Jaime Sifre
Founding Partner, Sánchez Betances,
Sifre y Muñoz Noya, P.S.C.





Management Team

Rafael Arrillaga - Torrén, Jr.
Chairman of the Board
President and CEO

Yadira Mercado
Executive Vice President and CFO

Félix León
Executive Vice President, Operations

Luis J. Berríos López
Executive Vice President and CLO

Carlos Rom, Jr.
EVP Branch Administration,
Strategic Planning & Business Development





EuroBancshares, Inc.

COMMERCIAL BANKING

As a full-service commercial bank, Eurobank targets small- and mid-sized businesses in locations throughout Puerto Rico. Its lending strategy continuously builds on its base of core customers, clients of above-average quality, by establishing and maintaining close personal relationships and offering the Bank's comprehensive tools, services and consulting.

Our loan products include commercial loans, lease financing contracts, construction loans, residential mortgages and to a lesser extent, consumer credit and secured personal loans. Other banking services such as Internet banking and cash management tailor strategies to the size and nature of each client's business. The EuroNet Cash Management program gives clients immediate access to their accounts, automatic payroll, programmed payments for suppliers and tax obligations, and stop payment and account maintenance tools. EuroNet Check Xpress® allows businesses to scan customer checks and credit the deposits immediately to their accounts.

Tu Banco Personal treats each client individually, allowing Eurobank to tailor products to clients' specific and rapidly changing commercial and personal requirements. The increase in commercial loans in 2007 of \$60.8 million represents a 5.88% improvement over the prior year, an extraordinary success in light of the difficult market conditions in 2007.

BRANCH BANKING

Eurobank's 26 branches give the Bank presence throughout the island. The network's convenient and attractive locations along the main vehicular routes circling the island, give our products broad exposure among potential customers, supporting the expansion of our client base. In addition to our complete line of commercial and individual banking services, the branches can cross-sell the entire product line, offering leasing through EuroLease, mortgage loans through EuroMortgage, insurance products through EuroSeguros, Inc. and wealth management services and investment management through the Eurobank Trust and Wealth Management Division.

Branch personnel are key to overall performance and the mainstay of the relationships at the root of Bank policy. Branch managers have the knowledge, training and support to help facilitate quick processing of loan originations and approvals. They routinely visit prospective clients to assess their situations and to orient them on the policies and products that set Eurobank apart from the competition.

MORTGAGE LENDING

The EuroMortgage division offers a full range of products, including FNMA, FHLMC, VA and FHA mortgages, and conforming and nonconforming loans. EuroMortgage personnel cross-sell hazard and life insurance for mortgage loans via EuroSeguros, Inc.

The Bank's residential mortgage loan portfolio increased to \$106.9 million in 2007, representing a 40.21% increase over the 2006 total of \$76.3 million. This significant increase in a difficult market reflects this unit's growing strength since its reorganization in late 2005.

CONSTRUCTION LENDING

In the uncertain economic environment of 2007, the Bank continued its policy of lending to experienced developers who construct residential units throughout the island and who have peak credit needs of between \$7.5 million and \$10.0 million for designated projects. The Bank maintained its historically prudent approach and focused on medium-sized projects with experienced developers in selected locations, which resulted in an increase by year end 2007 of \$77.1 million, an increase of 61.08% versus 2006 totals. Construction loans represent 10.96% of our total loan and lease portfolio.

During the year, the link with EuroMortgage continued to strengthen, providing added support to developers and the end-loan commitment to buyers of units built with Eurobank construction loans.

INSURANCE AGENCY

EuroSeguros, Inc., a subsidiary of EuroBancshares, Inc., is a general insurance agency that acts as both agent and producer in coordination with various Bank departments and branches and also sells directly to the general public. The agency offers credit life insurance for credit cards, residential mortgage loans and personal loans. It also provides automobile, property and casualty, title and guaranteed loan protection insurance, which pays the insured the difference between the insured value of the leased vehicle and the outstanding loan or lease balance if the vehicle is totaled in an accident or stolen.

TRUST AND WEALTH MANAGEMENT GROUP

This Group, a Eurobank division, provides Bank clients with advisory services including financial analysis and planning with customized programs designed for both individual and corporate clients. The division also assumes the fiduciary responsibility for managing trust funds, and administers retirement benefit plans, individual retirement accounts (IRA's), Keogh Plans, educational trusts, and personal trusts. Investment products are offered through an association with National Financial Services, LLC. At year end 2007, trust assets under management totaled \$299.4 million.

LEASING

EuroLease offers open-ended leases where the lessee is responsible for the residual value of the leased unit. Almost all of the \$385.4 million in leases held as of December 31, 2007, were auto leases. Management anticipated the economic downturn that began in 2005, and tightened underwriting standards, enhanced collection efforts, and pared back the automobile leasing operations. During 2007, management continued to closely monitor leases and reduce repossessed inventory, taking steps to prevent further deterioration of the portfolio and to efficiently dispose of these assets to avoid further decreases in their value. As a result, total leases decreased by almost \$57.9 million in 2007, representing a reduction of more than 13.07% over 2006.



Support Staff Departments

ACCOUNTING, FINANCE AND TREASURY

The Accounting Department supervises all accounting areas of EuroBancshares, Inc. and its subsidiaries, performs regulatory and internal reporting functions and coordinates the assessment of internal controls to comply with the Sarbanes-Oxley Act of 2002, serving as liaison between the Company, its subsidiaries, external auditors and regulatory examiners. The Finance and Treasury areas are responsible for asset and liability management functions, investing activities, liquidity levels and margin spreads as well as funding strategies for the Bank and its two international banking entities.

COMPLIANCE DEPARTMENT

Eurobank is committed to serving the general public with fair and nondiscriminatory practices and monitors compliance with all applicable consumer protection laws and other federal and local regulations with oversight from the Compliance Committee of the Board of Directors. The department monitors and distributes changes in current compliance requirements, new regulatory issues affecting the Bank, the operation of the compliance program itself, specific audit findings and suggestions for corrective action as well as public comments or complaints.

CREDIT ADMINISTRATION AND CARD SERVICES

This group monitors the branch process related to new loans, payment processing and record maintenance. It is a control agent for accounting and regulatory processes and provides loan system training and support. It also processes all workout loan accounting and monitors general ledger accounts related to all loan activities. The group also administers all aspects of the Bank's credit card products, point-of-sale and merchant operations.

CREDIT DEPARTMENT

Agile service and timely response from frontline staff to clients give Eurobank its edge in the market. Although credit decisions are necessarily centralized, the chief lending officer and his staff work extensively with regional and branch managers to ensure rapid turnaround for all loan, lease and mortgage originations. Lending policies and credit criteria are kept in tune with market conditions and the Bank's strategic plan.

HUMAN RESOURCES

The department supports the Bank's primary goal of attracting, rewarding and retaining a talented and diverse workforce with the necessary skills to meet business objectives efficiently and cost-effectively. HR adds value to the operation, providing management tools, executing strategy, promoting employee development, and managing transition and change.

INTERNAL AUDIT

It is EuroBancshares policy to maintain the Internal Audit Department as an independent, objective assessment and consulting activity that improves and increases the effectiveness of our organization's operations. Reporting to the Audit Committee of the Board of Directors, the department examines, and evaluates the corporation's activities, helping to accomplish its objectives. In its scheduled audits of the units, the audit personnel review operations, credit, compliance and internal controls over financial reporting to ensure compliance with internal and external standards.

INFORMATION TECHNOLOGY

The IT Department provides information technology and support to all Bank business and operational areas and customers to facilitate the accomplishment of strategic business goals and objectives in an efficient, effective, and competitive manner. During the third quarter of 2007, the bank entered into a historic IT operations and security contract with Telefónica Empresas, a wholly owned subsidiary of Telefonica, SA, Spain, a global leader in telecommunications and technology. This alliance will strengthen IT operations and place us at the forefront of technology innovation as well as provide totally redundant Core Banking systems outside of Puerto Rico, for ongoing operations and services in the event that our main data center becomes inoperable.

MARKETING

Marketing works to develop and refine management strategies and to define overall marketing, publicity and public relations programs that position the Bank in the marketplace. It develops specific programs and identifies the ongoing technologies and product development needed to achieve business objectives.



Mission • Vision

MISSION

We are a Bank of resources and solutions for small- to mid-size commercial businesses, professionals, and their employees. Furthermore, we are committed to fulfill the banking needs of those within our delivery network. We serve each one of our actual and prospective clients with quality products and services that exceed their expectations, while delivering excellent financial returns to our shareholders.

VISION

Recognizing that our assets are our most valuable asset, we will continue to recruit, train, supervise and coach them to ensure they are the best in the banking industry. We will guarantee the best commercial and personal banking services for our clients via a world-class delivery. As such, we will continue to expand our services and increase our delivery network, physical or otherwise, to optimize shareholder returns in our chosen market, be it Puerto Rico or any other community beyond our shores.



Institutional Values and Strategic Imperatives

INSTITUTIONAL VALUES

We affirm a set of values essential to our success, true to our principles and fundamental to our corporate character.

• Trust:

We believe Trust is at the very core of all our endeavors. We will always speak the truth, do what is right for the Bank and its shareholders and what is best for our clients.

• Honesty and Integrity:

We demand of all our personnel the highest of ethical standards in every decision they make, for they are the soul and pride of our organization.

• People:

We will always provide a learning and nurturing environment that will guarantee that each employee realizes her/his potential. We will select, recruit, train, develop and supervise our personnel offering leadership and guidance, rewarding passion and commitment in performance.

• Teamwork:

In order to offer our clients the best service, support and financial advice, we must ensure collaboration across the Bank, building a long and lasting bond with each client. Recognizing that information is power, we require everyone to continuously share with team members all pertinent and relevant information.

• Technology:

We will maintain our company at the forefront of all banking technology with the purpose of offering fast, agile and relevant information that translates into constantly improved performance and outstanding results.

• Operational Excellence and Total Quality:

We do things right the first time. A sense of ownership must stem from our commitment to total quality in everything we do and any endeavor we decide to embark upon.

• Commitment to Our Mission:

Our employees at all levels are fully aware of the Bank's mission statement, their role in that mission and are fully committed to it.

• Passion for Service:

Our first and foremost passion is to serve our customers, both external and internal.

• Shareholder Value:

Ultimately, the final measure of our success must be long-term increased shareholder value, consistent with industry and market conditions.

STRATEGIC IMPERATIVES

• Increase Shareholder Value.

• The Best Bank needs the Best Associates.

• Eurobank is perfectly positioned to significantly grow its footprint beyond the traditional financial institution boundaries.

• Run a World-class, Client-driven operation delivering total quality service.

• Technology is our closest ally.

• The Best Bank needs the Best Products and Services.



EuroBancshares, Inc. and Subsidiaries Operating Ratios and Other Selected Data

EUROBANCSHARES, INC. AND SUBSIDIARIES OPERATING RATIOS AND OTHER SELECTED DATA (Dollars in thousands, except share data)

Years Ended
December 31,

	2007	2006
Average shares outstanding - basic	19,212,801	19,217,178
Average shares outstanding - assuming dilution	19,391,638	19,657,559
Number of shares outstanding at end of period	19,093,315	19,123,821

Average Balances

Total assets	\$ 2,501,457	\$ 2,428,814
Loans and leases, net of unearned	1,804,099	1,663,330
Interest-earning assets (1)	2,400,797	2,348,079
Interest-bearing deposits	1,774,378	1,610,124
Other borrowings	397,515	499,275
Preferred stock	10,763	10,763
Shareholders' equity	174,825	165,034

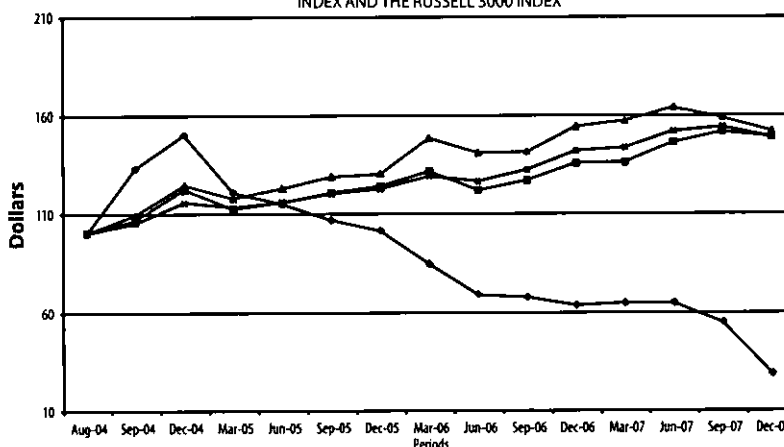
Performance Ratios

Return on average assets (2)	0.13%	0.33%
Return on average common equity (3)	1.96	5.19
Net interest spread (4)	2.29	2.33
Net interest margin (5)	2.80	2.86
Efficiency ratio (6)	63.48	57.89
Earnings per common share - basic	\$0.13	\$0.38
Earnings per common share - diluted	0.13	0.37

Asset Quality Ratios

Nonperforming assets to total assets	4.06%	2.52%
Nonperforming loans to total loans	5.28	2.85
Allowance for loan and lease losses to total loans	1.51	1.08
Net loan and lease charge-offs to average loans	0.91	0.97
Provision for loan and lease losses to net loan and lease charge-off	56.97	104.64

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG EUROBANCSHARES
INC., THE NASDAQ STOCK MARKET COMPOSITE INDEX, THE RUSSELL 2000
INDEX AND THE RUSSELL 3000 INDEX



- (1) Includes nonaccrual loans, which balance as of the periods ended December 31, 2007 and 2006 was \$69.0 million and \$37.3 million, respectively.
- (2) Return on average assets (ROAA) is determined by dividing net income by average assets.
- (3) Return on average common equity (ROAE) is determined by dividing net income by average common equity.
- (4) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
- (5) Represents net interest income on a fully taxable equivalent basis as a percentage of average interest-earning assets.
- (6) The efficiency ratio is determined by dividing total noninterest expense by an amount equal to net interest income (fully taxable equivalent) plus noninterest income.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File Number 000-50872

EUROBANCSHARES, INC.

(Exact name of registrant as specified in its charter)

SEC
Mail Processing
Section

MAY 11 2008

Washington, DC
104

Commonwealth of Puerto Rico

(State or other jurisdiction of
incorporation or organization)

66-0608955

(I.R.S. Employer
Identification No.)

State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926

(Address of principal executive offices, including zip code)

(787) 751-7340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value
\$0.01 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment of this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

As of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of Common Stock held by non-affiliates, based on the closing price of the Common Stock on the NASDAQ Global Select Market on such date, was approximately \$71.7 million.

The number of shares outstanding of the issuer's Common Stock as of March 11, 2008 was 19,143,315 shares.

Documents Incorporated by Reference

Portions of the Company's Proxy Statement relating to the 2008 Annual Meeting of Stockholders, which will be filed within 120 days after December 31, 2007, are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

EUROBANCSHARES, INC.

INDEX

	<u>PAGE</u>
PART I	1
SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING INFORMATION	1
ITEM 1. BUSINESS.	1
ITEM 1A. RISK FACTORS.	27
ITEM 1B. UNRESOLVED STAFF COMMENTS.....	33
ITEM 2. PROPERTIES.....	33
ITEM 3. LEGAL PROCEEDINGS.....	36
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	36
PART II	36
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.	36
ITEM 6. SELECTED FINANCIAL DATA.....	38
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.	39
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	71
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.	71
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.	73
ITEM 9A. CONTROLS AND PROCEDURES.....	73
ITEM 9B. OTHER INFORMATION.	74
PART III.....	74
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.	74
ITEM 11. EXECUTIVE COMPENSATION.....	74
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.	74
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.	74
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.....	75
PART IV.....	75
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.	75

PART I

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING INFORMATION

Statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including our expectations, intentions, beliefs, or strategies regarding the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “will continue,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” and similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results may differ materially from those in such forward-looking statements due to fluctuations in interest rates, inflation, government regulations, economic conditions, customer disintermediation and competitive product and pricing pressures in the geographic and business areas in which we conduct operations, including our plans, objectives, expectations and intentions and other risk factors, as detailed below.

The following risk factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Our business operations, financial condition and results of operations are subject to certain risks. For further information on these risks, see Item 1A – Risk Factors of this Annual Report on Form 10-K.

ITEM 1. Business.

Overview

EuroBancshares, Inc. (the “Company,” “we,” “us,” “our,” or “EuroBancshares” hereafter) is a diversified financial holding company headquartered in San Juan, Puerto Rico, offering a broad array of financial services through our wholly-owned banking subsidiary, Eurobank, and our wholly-owned insurance agency subsidiary, EuroSeguros. As of December 31, 2007, we had, on a consolidated basis, total assets of \$2.8 billion, net loans and leases of \$1.8 billion, investment securities of \$751.3 million, total deposits of \$2.0 billion, and stockholders’ equity of \$179.9 million.

Eurobank is a full-service Puerto Rico commercial bank with 26 branch network. We believe our branches are located within a convenient drive of approximately 80% of the population of Puerto Rico. The Bank is engaged in substantially all of the business operations customarily conducted by independent financial institutions in Puerto Rico and the United States, including the acceptance of checking, savings and time deposits and the making of commercial and consumer loans, residential mortgage loans, real estate loans, lease financing, and other installment and term loans. Eurobank also offers trust and wealth management services. As a traditional commercial bank, Eurobank earns interest on loans, leases and investment securities that are funded by customer deposits, borrowings, retained earnings and equity. The difference between the interest received and the interest paid has historically comprised the majority of our earnings.

We are a relationship-driven financial services company focused on providing personalized banking services. We established our position in the small and middle market business community as a secondary alternative to our larger competitors, who we believed were under-serving the market. Today, we compete head to head with all Puerto Rico commercial banks for the primary banking relationship of these customers. Our personalized customer service and experienced and focused management team are at the core of our strategy. While we have

grown in size, we remain focused on providing services with a personal touch. Additionally, we have sought to further develop our footprint throughout the entire island by opening branches along the main vehicular arteries that circle Puerto Rico.

Our niche is to provide one-on-one services to small and mid-sized commercial businesses in Puerto Rico. Most of these businesses are involved in service industries, wholesale and retail distribution, dairy farming, construction, manufacturing, transportation and professional services, and have annual sales between \$2.0 and \$40.0 million. However, we also provide responsive customer service and convenient banking products to smaller companies with sales ranging from \$500,000 to \$2.0 million, consisting primarily of lawyers, healthcare providers, CPAs, engineers, small contractors and other professionals. While we do not mass market to the retail segment, we do provide retail banking services to the owners and families of our targeted commercial and small business customers, their employees and individuals who reside or work near our branch offices. These customers are usually also depositors of Eurobank. We seek to provide all of our customers with quick, responsive service and foster a culture in which customers are valued and respected.

We target experienced real estate developers and provide them with acquisition, development, and construction loans. We place particular emphasis on single-family homes, townhouses, and walk-up developments throughout the Island. We also finance commercial real estate development and construction projects, particularly if they are owner-occupied, ideally limiting our maximum credit exposure between \$7.5 million and \$10.0 million for these types of credits. Under the tradename "EuroMortgage," we support these activities by providing financing to the purchasers of these real estate units. In addition, through a staff of salespeople, today we also provide mortgages to our branch customers and the general public. On a selective basis, we provide financing to owner-occupied properties and to a lesser extent to income producing properties.

Under the tradename "EuroLease," we provide open-end lease financing to which the lessee is responsible for the residual value, if any, of the leased asset. This short to medium-term fixed rate financing blends well with our primarily floating rate commercial loan portfolio.

Long-term, it is our objective to leverage our relationships with our primary customers by cross-selling a complete array of banking products and services directly or through third-party providers. Through our trust department and EuroSeguros, we seek to assist our customers with a full array of wealth management products and services.

Our Strategic Plan

Our primary business objectives are to enhance our profitability and to establish Eurobank as the premier small and middle market commercial bank in Puerto Rico. Our core customers are small and mid-sized businesses, real estate development companies and the owners, executives and employees of these businesses. We specifically target customers who want to deal directly with people they know and trust. As convenience remains an overriding factor in customer choice, we have continued to establish de novo branches throughout the island to provide such convenience, and at the same time we have continued to enhance our technology platform.

We have developed a strategy that focuses on providing superior service through highly-qualified and relationship-oriented employees who are committed to their respective communities. Through this strategy we intend to grow our business, expand our customer base and improve profitability. The key elements of our strategy are:

- *Focus on Our Targeted Customers.* We focus our time and resources on the following types of customers: small and mid-sized businesses, real estate development companies and the owners, executives and employees of these businesses. In this regard, we seek to leverage our business banking relationships by cross-selling to the personal financial needs of these business owners, executives and employees.
- *Provide Superior and Convenient Service to Our Customers.* We strive to provide superior customer service through convenient access to Eurobank's branches and personalized relationship banking. We have 26 branch offices strategically located within a convenient drive of approximately 80% of the island's population. Under our business model, we provide each commercial customer with its own relationship manager for all its banking needs. These relationship managers and our executive management team regularly visit customers at their places of business.

- *Hire and Retain Well-Trained and Qualified Employees.* We are continuing to grow our franchise by providing superior customer service through committed, qualified and relationship-oriented employees. We seek to hire experienced and qualified employees that prefer our relationship banking approach. These employees are specifically incited through our compensation program to leverage our commercial relationships by cross-selling our products and services to the owners, executives and employees of our business customers.
- *Use the Lease Financing Business to Mitigate Interest Rate Risk.* We use our lease financing business to mitigate our interest rate risk by offsetting the variable rate nature of our commercial loan portfolio with a short to medium-term fixed rate product.
- *De Novo Branching and Acquisitions.* We seek to increase our presence throughout the island through selective acquisitions and the opening of de novo branches in attractive locations. Our de novo expansion outside of the San Juan metropolitan market has followed Puerto Rico's primary traffic arteries to areas that have been growing.
- *Maximize Growth of our International Banking Entities (IBE).* Because EBS Overseas, Eurobank's IBE subsidiary, and EBS International Bank, a division of Eurobank, are generally not subject to federal or Puerto Rico income tax, we will seek to maximize the growth of these IBEs as interest rates and applicable law permit.

Our De Novo Branch and Acquisition Strategy

Our growth strategy is concentrated on increasing our banking presence throughout the island of Puerto Rico. Our expansion has been the result of internal growth, acquisitions and the opening of de novo branch offices. Consistent with our operating philosophy and growth strategy, we regularly evaluate opportunities to acquire other banks or bank branches, expand our market coverage and share through de novo branching and enhance our product and service offerings. Eurobank's expansion out of the San Juan metropolitan area has followed Puerto Rico's primary traffic arteries to new locations poised for growth. We believe that the Puerto Rico banking environment, which is dominated by large banks, has afforded us a continuing opportunity to gain new customer relationships and to expand existing relationships. The growth in our branch network has expanded our presence throughout the Island and increased our customer base. Each branch now has the ability to sell not only traditional products such as commercial credit, leasing, construction, mortgages, consumer credit and personal secured loans, but also to cross-sell our entire product line, including insurance through EuroSeguros, and investment products through our trust department account representatives.

De Novo Branches

Between 2005 and 2007, we opened six new banking offices in Aguadilla, Canóvanas, Fajardo, Cayey, Cabo Rojo and Eurobank Plaza, located at our new headquarters. In July 2007, we closed the branch located at Luquillo, Puerto Rico. Our branches are located along the major vehicular arteries that encircle the Island, within a convenient drive of approximately 80% of the population of Puerto Rico.

Mergers and Acquisitions – BankTrust

On May 3, 2004, we acquired all of the capital stock of BankTrust; a Puerto Rico chartered commercial bank, through the merger of BankTrust with and into Eurobank. This was our latest material acquisition. The aggregate purchase price for the capital stock of BankTrust was \$23.4 million, and consisted of the issuance of 683,304 shares of our common stock, 430,537 shares of our Series A Preferred Stock, and \$6.5 million in cash. There were no changes in our Board of Directors or our senior management team as a result of the BankTrust acquisition. We funded a portion of the purchase price with proceeds we received from the issuance of 733,316 shares of our common stock at \$8.13 per share in a private placement of our common stock to our existing stockholders and option holders. In connection with the private placement and the acquisition of BankTrust, our Board of Directors engaged an independent third-party financial advisor, Feldman Financial Advisors, Inc., to determine the fairness, from a financial point of view, to our stockholders of the merger consideration paid to BankTrust's stockholders and the terms of the private placement. The acquisition was accounted for using the purchase method of accounting under accounting principles generally accepted in the United States of America.

BankTrust provided a broad range of financial products and services to its customers, including commercial, mortgage and personal loans, financial leases, checking and savings accounts, asset management and trust services. BankTrust operated five branch offices - two were located in San Juan and the other three were located in Guaynabo, Mayagüez and Ponce. BankTrust also had one loan production office in San Juan and operated an IBE under the name "BT International." As of June 1, 2004, we had closed four of the five BankTrust branches, as well as the loan production office, and consolidated these operations into our existing branch network. Eurobank continued to operate BT International as a division of Eurobank under the tradename of EBS International Bank and the Guaynabo branch office as a branch of Eurobank. On the closing date, the estimated fair value of the assets acquired was \$522.0 million and the estimated fair value of the deposits and other liabilities assumed was \$492.9 million.

Products and Services

Eurobank is engaged in substantially all of the business operations customarily conducted by independent financial institutions in Puerto Rico, including the acceptance of checking, savings and time deposits and the making of commercial and consumer loans, mortgage loans, real estate loans, lease financing, and other installment and term loans. Eurobank also offers trust and wealth management services. We provide our customers with internet banking, electronic funds transfers through ACH services, cash management, vault services, and loan and deposit sweep accounts. While we offer a wide variety of financial services to our customers, our primary products and services are grouped in the following categories: commercial banking, leasing ("EuroLease"), mortgage banking ("EuroMortgage"), and trust and wealth management. In addition, we provide automobile, property and casualty, credit life, and guaranteed auto protection insurance to customers in our market area through our other wholly-owned subsidiary, EuroSeguros. The following provides a summary description of our core products and services:

Commercial Banking

Eurobank markets commercial banking products and services primarily to small and mid-sized businesses located in Puerto Rico. Commercial banking products and services offered include commercial loans, residential construction loans and, to a lesser extent, consumer credit and personal secured loans, as well as a broad range of deposit products and other non-deposit banking services, including internet banking and cash management services tailored to meet the needs of these businesses.

While we market a wide range of commercial banking products and services, emphasis is placed on our loan products. Each commercial lending branch has senior management with extensive lending experience. These managers exercise substantial authority over credit presentation and pricing initiatives, subject to centralized loan approvals for all unsecured credits and secured credits when exceeding individual manager's limit, which range generally from \$50,000 to \$400,000. This decentralized management approach for secured credits, coupled with continuity of service by the same staff members, enables us to develop long-term customer relationships, maintain high quality service and respond quickly to customer needs. The centralized approval process, however, provides credit control. We believe that our emphasis on local relationship banking, together with a conservative approach to lending, are important factors in our success and growth.

We centralize most credit and support functions in order to achieve credit quality consistency and cost efficiencies in the delivery of products and services by each banking office. The central office provides services such as data processing, bookkeeping, accounting, treasury management, credit approval, loan review, compliance, risk management and internal auditing to enhance our delivery of quality service. We also provide overall direction in the areas of credit policy and administration, strategic planning, marketing, investment portfolio management and other financial and administrative services. The branch offices work closely with our central office to develop new products and services needed by our customers and to introduce enhancements to existing products and services.

Commercial and Construction Loans

In the commercial banking area, Eurobank focuses on providing commercial and construction loans to local businesses. These businesses generally have annual sales ranging from \$2.0 million to \$40.0 million, and financing requirements between \$1.0 million and \$10.0 million.

At December 31, 2007, commercial loans totaled \$1.1 billion, or 58.99% of our gross loan and lease portfolio, which included \$792.3 million in commercial loans secured by real estate, some of which were granted with loan-to-values exceeding 100% and additional forms of collateral or guaranties were obtained. Commercial

loans include lines of credit and commercial term loans to finance operations and to provide working capital for specific purposes, such as to finance the purchase of assets, equipment or inventory. Since a borrower's cash flow from operations is generally the primary source of repayment, our analysis of the credit risk focuses heavily on the borrower's debt repayment capacity.

Lines of credit are extended to businesses based on the financial strength and integrity of the borrower, generally have a maturity of one year or less, and can be secured or unsecured. Secured lines of credit are primarily collateralized by real estate, accounts receivable and inventory. Such lines of credit bear an interest rate that floats with our base rate, the prime rate, LIBOR or another established index.

Commercial term loans are typically made to finance the acquisition of fixed assets, provide permanent working capital or to finance the purchase of businesses. Commercial term loans generally have terms from one to five years. They may be collateralized by the asset being acquired or other available assets and bear interest rates that either float with Eurobank's base rate, prime rate, LIBOR or another established index or is fixed for the term of the loan.

At December 31, 2007, construction loans totaled \$203.3 million, or 10.96% of our gross loan and lease portfolio. We seek to market our construction loans to experienced developers who develop residential units throughout the island and whose peak maximum credit needs for a particular project generally are between \$7.5 million and \$10.0 million. Construction loans generally have terms of 18 months, with options to extend for additional periods to complete construction and sale of the units. We usually require a 20.0% equity capital investment by the developer and loan-to-value ratios of not more than 80.0% of anticipated completion value.

Over the last four years, our commercial and construction loans have grown 25.38% on a compounded basis. The following table shows end of period balances of commercial and construction loans for the periods indicated below:

As of December 31,				
2007	2006	2005	2004	2003
		(In thousands)		
\$1,298,183	\$1,160,308	\$967,049	\$786,438	\$525,251

Our portfolio of commercial and construction loans is subject to certain risks, including: (1) a possible downturn in the Puerto Rico economy; (2) interest rate increases; (3) the deterioration of a borrower's or guarantor's financial capabilities; and (4) environmental risks, including natural disasters. We attempt to reduce the exposure to such risks through: (1) reviewing each loan request and renewal individually; (2) utilizing a centralized approval system for all unsecured loans and secured loans over individual manager's limit, which range generally from \$50,000 to \$400,000; (3) strictly adhering to written loan policies; and (4) conducting an independent credit review. In addition, loans based on short-term asset values are monitored on a monthly or quarterly basis. In general, we receive and review financial statements of borrowing customers on an ongoing basis during the term of the relationship and respond to any deterioration noted.

Consumer Loans

Although Eurobank focuses on marketing commercial loans to local businesses, it also provides consumer credit and personal secured loans to the owners and employees of these businesses. At December 31, 2007, consumer loans totaled \$58.5 million, or 3.15% of our gross loan and lease portfolio, which included a boat financing portfolio of \$35.0 million and \$780,000 in consumer loans secured by real estate. Our consumer loan portfolio is subject to certain risks, including: (1) amount of credit offered to consumers in the market; (2) interest rate increases; and (3) consumer bankruptcy laws which allow consumers to discharge certain debts. We attempt to reduce the exposure to such risks through the direct approval of all consumer loans by: (1) reviewing each loan request and renewal individually; (2) utilizing a centralized approval system for loans in excess of individual manager's limit, which range generally from \$10,000 to \$100,000; (3) strictly adhering to written credit policies; and (4) conducting an independent credit review.

Leasing Activities

We entered the leasing business in order to assist us in managing our interest rate risk. We determined that a short to medium-term fixed rate product, such as lease financings, was needed to mitigate our interest rate risk resulting from our high volume of variable rate commercial loans.

Under the tradename "EuroLease," Eurobank offers open-ended leases pursuant to which the lessee is responsible for the residual value of the leased unit. At December 31, 2007, we held \$385.4 million in leases, representing 20.77% of our gross loan and lease portfolio. During 2007, approximately 97.03% of all originations were automobile leases. The remaining originations were primarily medical equipment and construction equipment leases. While the granting of leases is governed by many aspects of our general credit policies and procedures, due to the nature of the exposure, additional specific parameters are applied to leases. Our automobile leasing is done by way of finance leases, where the lessee is responsible for any residual at the end of the lease term. Practically all automobile leasing in Puerto Rico is done in this manner and the large majority of banks compete in this market. Although we believe that the risk in this product is generally higher than commercial lending, we believe the higher risks are acceptable due to the obligation of the lessee for the residual value and the numerous risk mitigation parameters that we utilize in the credit underwriting process. All lease requests are reviewed by our credit department and are subjected to numerous credit tests. There are varying levels of credit approval authority within the department, although none is as high as the approval authority of the senior leasing officer, who has the authority to approve aggregate credit extensions of up to \$175,000 to any one borrower. We apply the same "total to one borrower" concept in the commercial lending area as well. Additional risk mitigation is practiced through a series of parameters and controls, which include but are not limited to, minimum dollar amounts on new vehicle leases, maximum amounts on residuals, maximum terms, obligatory insurance, minimum income parameters, maximum debt service-to-income parameters, certain credit history parameters, down payments and employment history parameters.

On a monthly basis, we review the existing lease portfolio to determine the repayment performance of borrowers displaying subprime lending characteristics. This analysis contemplates the segregation of the lease portfolio in two different categories, sub-prime and prime, based on the characteristics of each borrower. The review includes the segregation of the monthly delinquency report into these categories to compare the percentage of the outstanding balance for each category in different delinquent stratas. For 2007, the analysis revealed there was a similar repayment performance for both categories. This review enables us to have a better monitoring system and control sub-prime borrowers and to reduce risk of repossessions and future losses.

During 2007, approximately 62% of our new automobile leases were financed on a no residual value basis because the automobiles would be transferred to the lessee at the end of the lease term. For those that do have a residual value, the lessee is contractually responsible for the full residual amount at the end of the lease term. We do not have the risk of fluctuations in automobile values relative to residual value. Instead, our risk is a credit risk regarding whether the lessee will perform on its obligation to purchase the automobile at the end of the contract at residual value. In addition, in some instances EuroLease will refinance the automobile purchased at the residual value.

New automobile leases are offered for terms of up to 72 months. Leases with terms of 72 months will be financed based on no residual value. Lessees may also choose a 60-month lease term, in which case we offer financing with a maximum of a 35% residual value. This higher residual value product is usually offered mostly on high-end European and Japanese automobiles based on historical used automobile resale values.

Under current Puerto Rican law, the lessee is deemed to be the title holder of a leased automobile and therefore is responsible for all tort liability associated with the operation and possession of the automobile.

We have developed procedures designed to facilitate our lease financing business. Our account executives generate the leases at the automobile dealer level. We are selective with respect to our customers, and are aided in this selection by referrals from the automobile dealers. We also market this service to our targeted customers. While most of our leases are for automobiles, in some cases we have been willing to provide equipment lease financing for our commercial customers.

We believe the collection process is an integral component to a successful leasing business. Our collection efforts with respect to leases start 10 days after the due date of each lease. A collections staff of ten internal collectors and ten outside collectors is managed by a Collections Department Head, one Collections Manager

and two supervisors. To reinforce outside collectors, additional resources are obtained by hiring external collection agencies that provide support on certain accounts. Our internal collectors are responsible for all efforts to collect on leases under 30 days past due. If a customer cannot be reached by phone, the account is then assigned to the outside collector's staff. When the account reaches 60 days past due, repossession efforts are started. If a customer does not deliver the automobile voluntarily, the case is referred to our outside collections lawyers. Most of our repossessions are voluntary. Court proceedings for repossession take approximately 60 days. Once repossessed, vehicles and equipment are initially recorded at the lower of net realizable value or book value at the date of repossession, establishing a new cost basis. Any resulting loss is charged to the allowance for loan and lease losses. A valuation of repossessed assets is made quarterly after its repossession. Additional declines in value after repossession, if any, are charged to current operations. Gains or losses on disposition of repossessed assets and related maintenance expenses are included in current operations.

The following table sets forth the dollar volume of leases originated by Eurobank and the end of period balances of leases for the periods indicated below:

	As of or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Originations	\$122,909	\$147,352	\$230,985	\$257,808	\$185,321
End of period balance	\$385,390	\$443,311	\$487,863	\$459,251	\$315,935

Eurobank intends to maintain its lease origination volume at current levels and focus on improving the overall quality of the portfolio and service to its network of dealers. In doing so, we also intend to provide dealers, on a selective basis, with floor plan financing. We seek to avoid an excess concentration of leases as a percentage of interest-earning assets. Typically, we retain the right to service the leases we sell. During 2005, we sold approximately \$29.9 million in leases. There was no sale of lease financing contracts during 2006 and 2007.

Mortgage Banking

Under the tradename "EuroMortgage," Eurobank offers Federal National Mortgage Association, or FNMA, Veterans Affairs, or VA, and Federal Housing Administration, or FHA, and Freddie Mac loans, as well as conforming and non-conforming mortgage loans. We are an approved seller/servicer for Freddie Mac. Eurobank has continued to make inroads in the market by providing for the efficient and expeditious turnaround of new loan applications and by establishing certain strategic relationships that allow access to secondary mortgage markets on a best price basis. At December 31, 2007, residential mortgage loans, excluding loans held for sale, totaled \$106.9 million, representing 5.76% of our gross loan and lease portfolio.

Our targeted market for mortgage banking is the financing of primary residential properties on the Island. We also provide mortgage banking services to our retail customers and to the owners, executives and employees of our targeted commercial customers. In addition, our salespeople engage in marketing and direct selling efforts to the general community and the units financed by our construction lending department. All mortgages originated by Eurobank are fixed-rate mortgages with a maximum term of 30 years. Part of the mortgage loans we originate are sold to other financial institutions with servicing released. We have been authorized by Freddie Mac to create mortgage loan pools to be sold in the secondary market. However, as of December 31, 2007, we had not created any such pool. It is our intention to create such pools in the future.

The following table sets forth the dollar volume of residential mortgage originations by Eurobank and the end of period balances of residential mortgages for the periods indicated below:

	As of or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Originations	\$56,975	\$55,097	\$21,112	\$28,028	\$53,880
End of period balance	\$106,947	\$76,277	\$44,841	\$51,730	\$15,941

Our portfolio of mortgage loans is subject to certain risks, including: (1) a possible downturn in the Puerto Rico economy affecting real estate values; (2) interest rate increase; (3) the deterioration of a borrower's or

guarantor's financial capabilities; and (4) environmental risks, including natural disasters. We attempt to reduce the exposure to such risks through: (1) reviewing each loan request and renewal individually; (2) utilizing a centralized approval system for loans in excess of \$500,000; (3) strictly adhering to written loan policies; and (4) conducting an independent credit review.

Trust and Wealth Management

Our Trust and Wealth Management Group, a division of Eurobank, was established to develop and cross-sell services related to the administration of retirement benefits plans, personal and corporate trust and wealth management services to the owners, executives and employees of our customer base. As of December 31, 2007, Eurobank had approximately \$299.4 million in trust assets under management.

We offer a full array of investment products and services guided by an experienced and specialized team focused on serving our customers' financial needs. This is part of our strategy of creating financial centers in which each customer may access a variety of integrated financial products and services. Investment products are offered through an association with National Financial Services, LLC, a registered broker-dealer. Our services include financial planning, estate planning, settlement, and investment management services to individuals and corporate customers. During 2007, 2006 and 2005, we traded approximately \$37.3 million, \$17.4 million and \$36.2 million, respectively, in investment securities for our customers.

Municipal Finance

On September 21, 2007, Eurobank, our wholly-owned banking subsidiary, became a registered Bank Municipal Dealer pursuant to section 15B (a)(2) of the Securities Exchange Act of 1934. As a result of this registration, Eurobank Municipal Finance Division, a division of Eurobank, can participate in the underwriting, trading and sales of municipal securities, and also provide financial advisory and consulting services for issuers in connection with the issuance of municipal securities, among other related activities.

On January 2, 2008, Eurobank entered into a Joint Account Agreement with Oppenheimer & Co. Inc., a New York corporation ("Oppenheimer"), for the purpose of jointly pursuing underwriting and other types of engagements with the Commonwealth of Puerto Rico and its municipalities and public corporations. This agreement, effective until December 31, 2008 and automatically renewable for one-year terms thereafter, calls for Eurobank and Oppenheimer to participate in the distribution of Puerto Rico bonds, as co-managers within the syndicate established for these purposes by the Puerto Rico Government Development Bank. During the term of the agreement, Eurobank and Oppenheimer will share fees and commissions generated from the assignments on a transaction-by-transaction basis.

Insurance

EuroSeguros primarily offers automobile, title, property and casualty, and guaranteed auto protection insurance to customers in our market area. Also, it offers credit life insurance for credit cards, residential mortgage and personal loans. EuroSeguros represents several insurance companies in Puerto Rico and is licensed and regulated by the Office of the Commissioner of Insurance of Puerto Rico.

EuroSeguros' goal for the year 2008 is to continue working closely with Eurobank's mortgage customers, leasing customers and branch professionals, while continuing to enhance personalized service to all of these customers.

International Banking Entities

We operate EBS Overseas, Inc., an IBE subsidiary of Eurobank. We also have an IBE that operates as a division of Eurobank under the name EBS International Bank. This IBE was acquired under the name of BT International in connection with the acquisition of BankTrust and changed to EBS International Bank on September 27, 2005. We have continued to operate EBS International Bank as a division of Eurobank and do not have immediate plans to transfer its assets to EBS Overseas, Inc.

IBEs are limited under the IBE Act with respect to the types of activities they can undertake. In general, IBEs may accept deposits or borrow money from other IBEs and from "foreign persons." For purposes of the IBE

Act, a "foreign person" is defined as anyone who is not a resident of Puerto Rico. IBEs are also permitted to engage in any activity that is financial in nature outside of Puerto Rico that is permissible for a bank holding company or a foreign office or subsidiary of a United States bank under applicable United States law. Typically, we borrow funds in the United States in the form of repurchase obligations or broker deposits (considered foreign under the IBE Act) and invest those funds primarily in U.S. Government Sponsored Agencies and obligations issued by U.S. Corporations, Mortgage Back Securities issued or guaranteed by U.S. Government Agencies, United States Treasury Obligations, U.S. Government Agencies Obligations, or U.S. Government Sponsored Agencies Obligations. The income earned from this activity is tax exempt. For more information regarding the regulation of IBEs, see the section of this Annual Report on Form 10-K captioned "*Supervision and Regulation — International Banking Center Regulatory Act.*"

EBS Overseas, Inc. is authorized to invest in notes and bonds issued by the U.S. government, the Commonwealth of Puerto Rico, other foreign governments and their agencies, and U.S. and foreign corporations. As of December 31, 2007, EBS Overseas' investment portfolio consisted of the following: \$162.0 million, or 24.70%, in mortgage-backed securities issued or guaranteed by government or government sponsored agencies, \$114.9 million, or 17.52%, in U.S. government agency obligations, \$371.6 million, or 56.64%, in mortgage-backed securities issued by U.S. corporations, \$4.7 million, or 0.72%, in Puerto Rico Public Authorities, and \$2.7 million, or 0.42%, in other debt securities.

We have structured EBS Overseas' investment portfolio in an effort to improve our net interest margin in the future. The maturities on debt obligations in EBS Overseas' investment portfolio range from 3 to 5 years with an estimated average maturity as of December 31, 2007 of 0.8 years. Except for approximately \$4.9 million in a hybrid annual, one year LIBOR adjustable rate, mortgage-backed security with an original estimated average maturity of 11.0 years, the original estimated average maturities of mortgage-backed securities in the portfolio range from 2 to 7.5 years, with an average maturity as of December 31, 2007 of approximately 5.8 years.

As of December 31, 2007, EBS Overseas had total assets of approximately \$687.2 million, repurchase obligations of approximately \$273.0 million, borrowings from EBS International Bank of approximately \$355.4 million and stockholders' equity of approximately \$56.0 million. Further, as of December 31, 2007, EBS International Bank had total assets of approximately \$565.1 million, deposits of approximately \$356.7 million, and repurchase agreements of approximately \$203.4 million.

Eurobank Statutory Trust I and II

On November 11, 2001, Eurobank Statutory Trust I, a special purpose statutory trust subsidiary of EuroBancshares, was formed for the purpose of issuing \$25.0 million in trust preferred securities, which were issued on December 18, 2001 with a liquidation amount of \$1,000 per security, with option to redeem in five years. In an effort to improve our net interest margin, on December 18, 2006, these trust preferred securities were redeemed resulting in the write-off of approximately \$626,000 in unamortized placement costs.

On December 10, 2002, Eurobank Statutory Trust II, a special purpose statutory trust subsidiary of EuroBancshares was formed for the purpose of issuing \$20.0 million in trust preferred securities, which were issued on December 19, 2002.

On March 1, 2005 the Federal Reserve Board adopted the final rule that allows the continued limited inclusion of trust-preferred securities in the Tier 1 capital of bank holding companies (BHCs). Under the final rule, trust preferred securities and other restricted core capital elements are subject to stricter quantitative limits. The Federal Reserve Board's final rule limits restricted core capital elements to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits.

For more detail on notes payable to statutory trusts please refer to "*Note 16 – Notes Payable to Statutory Trusts*" to our consolidated financial statements.

Market

We consider our primary market area to be the island of Puerto Rico. We serve this market through our main office and branches in the greater metropolitan area of San Juan and our branches strategically located within a

convenient drive of approximately 80% of the island's population. Puerto Rico is the fourth largest of the Caribbean Islands and is located approximately 1,100 miles southeast of Miami. It is approximately 100 miles long and 35 miles wide.

Puerto Rico came under United States sovereignty in 1898 and obtained commonwealth status in 1952. Puerto Ricans have been citizens of the United States since 1917. The United States and Puerto Rico share a common defense, market and currency. The Commonwealth of Puerto Rico exercises virtually the same control over its internal affairs as do the fifty states. Most federal taxes, except those such as Social Security taxes which are imposed by mutual consent, are not levied in Puerto Rico. No federal income tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. According to the United States Census Bureau, the population of Puerto Rico was 3.8 million in 2000, compared to 3.5 million in 1990. As of 2006, the population of Puerto Rico was estimated at 3.9 million, of which approximately one third lives within the San Juan metropolitan area.

The economy of Puerto Rico is closely linked to that of the United States. As such, factors affecting the United States economy usually have a significant impact on the performance of the Puerto Rico economy. These include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the level of oil prices, and the rate of inflation and tourist expenditures.

Between May 1 and May 17, 2006, Puerto Rico experienced a partial government shutdown caused by the inability of the Legislature and Governor to agree on a budget, which resulted in an estimated \$740 million budget shortfall. This government shutdown forced the closure of approximately 43 public agencies, including Puerto Rico's public schools, leaving an estimate of 90,000 government employees out of work. In response to this economic crisis, several bills were approved by the Puerto Rico legislature to impose additional taxes, some of which were applicable to the banking industry, resulting in an increase in our effective tax rate. For more information relating to the risks surrounding our economic environment and the additional taxes imposed to the banking industry, see the sections captioned "*Risks Relating to the Economic Environment*" and "*Provision for Income Taxes*" in Item 1A – Risk Factors and Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, respectively, of this Annual Report on Form 10-K.

The dominant sectors of the Puerto Rico economy are manufacturing and services. The manufacturing sector has undergone fundamental changes over the years as a result of increased emphasis on higher wages, high technology industries, such as pharmaceuticals, biotechnology, electronics, computers, microprocessors, professional and scientific instruments and certain high technology machinery and equipment. The services sector, including finance, insurance, real estate, wholesale and retail trade and tourism, also plays a major role in the economy. It ranks second only to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment. The other material sectors of the Puerto Rican economy include government, transportation and agriculture.

As of December 31, 2007, there were 13 FDIC-insured commercial bank and trust companies operating in Puerto Rico. Total assets of these institutions as of December 31, 2007 were \$98.6 billion. As of December 31, 2007, there were 35 International Banking Entities operating in Puerto Rico licensed to conduct offshore banking transactions, with total assets of \$75.8 billion. As of December 31, 2007, Eurobank held 3.23% of the deposits held by FDIC insured financial institutions in Puerto Rico.

Environmental Compliance

In addition to our obligations under environmental laws with respect to property that we own, there are several federal and state statutes that govern the rights and obligations of financial institutions with respect to environmental issues. In addition to being directly liable under these statutes for its own conduct, a financial institution may also be held liable under certain circumstances for the actions of borrowers or other third parties on property that collateralizes a loan held by the institution. This potential liability may far exceed the original amount of the loan made by the financial institution, which is secured by the property. Currently, we are not a party to any legal proceedings involving potential liability under applicable environmental laws.

Employees

We had approximately 517 full-time equivalent employees as of December 31, 2007. Our future success will depend in part on our ability to attract, retain and motivate highly qualified management and other personnel.

We provide health, life and disability coverage for our employees and make contributions on behalf of eligible employees under a plan intended to qualify as a simplified employee pension plan under the Puerto Rico Internal Revenue Code. Our employees are not represented by a collective bargaining agreement and we have never experienced a strike or similar work stoppage. We consider our relationship with our employees to be good.

Available Information

Our Internet website address is www.eurobankpr.com. We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. You may also read and copy any materials we file with the Securities and Exchange Commission at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the SEC's Public Reference Room by calling at 1-800-SEC-0220. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. However, the information found on our website is not part of this or any other report.

SUPERVISION AND REGULATION

The following is a summary description of the relevant laws, rules and regulations governing banks and bank and financial holding companies. The descriptions of, and references to, the statutes and regulations below are brief summaries and do not purport to be complete. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

General

The supervision and regulation of bank holding companies and their subsidiaries are intended primarily for the protection of depositors, the deposit insurance funds of the FDIC and the banking system as a whole, and not for the protection of the bank holding company stockholders or creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the power to impose substantial fines and other penalties for violations of laws and regulations.

Legislation is from time to time introduced in Congress and Puerto Rico's legislature, including proposals to overhaul the bank regulatory system, expand the powers of depository institutions and limit the investments that depository institutions may make with insured funds. Such legislation may change applicable statutes and the operating environment of EuroBancshares and Eurobank in substantial and unpredictable ways. We cannot determine the ultimate effect that future legislation or implementing regulations would have upon the financial condition and results of operations of EuroBancshares or Eurobank, or any of their subsidiaries.

On March 13, 2007, EuroBancshares' subsidiary bank, Eurobank, entered into a Stipulation and Consent Order with the FDIC agreeing to the issuance of a Cease and Desist Order. The order was based upon examination results which indicated that the Bank's Bank Secrecy Act/Anti-Money Laundering Program was not fully in compliance with the requirements of the BSA laws, regulations, and guidance. For additional information, see the section of this report captioned "*Anti-Terrorism Legislation*" on page 15.

EuroBancshares

EuroBancshares is a financial holding company registered under the Bank Holding Company Act, and is subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Regulatory Restrictions on Dividends; Source of Strength

EuroBancshares is regarded as a legal entity separate and distinct from its other subsidiaries. The principal source of our revenue is dividends received from Eurobank. Various federal and state statutory provisions limit the amount of dividends Eurobank can pay to EuroBancshares without regulatory approval. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve Board policy, a holding company may not be inclined to provide it. As discussed below, a bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

In the event of a bank holding company's bankruptcy under Chapter 11 of the United States Bankruptcy Code, the trustee will be deemed to have assumed, and is required to cure immediately, any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

Activities "Closely Related" to Banking

The Bank Holding Company Act prohibits a bank holding company, with certain limited exceptions, from acquiring direct or indirect ownership or control of any voting shares of any company which is not a bank or from engaging in any activities other than those of banking, managing or controlling banks and certain other subsidiaries, or furnishing services to or performing services for its subsidiaries. One principal exception to these prohibitions allows the acquisition of interests in companies whose activities are found by the Federal Reserve Board, by order or regulation, to be so closely related to banking or managing or controlling banks, as to be a proper incident thereto. These activities include, among other things, numerous services and functions performed in connection with lending, investing, and financial counseling and tax planning. In approving acquisitions by bank holding companies of companies engaged in banking-related activities, the Federal Reserve Board considers a number of factors, and weighs the expected benefits to the public (such as greater convenience and increased competition or gains in efficiency) against the risks of possible adverse effects (such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices). The Federal Reserve Board is also empowered to differentiate between activities commenced *de novo* and activities commenced through acquisition of a going concern.

Gramm-Leach Bliley Act; Financial Holding Companies

The Gramm-Leach-Bliley Financial Modernization Act of 1999, revised and expanded the provisions of the Bank Holding Company Act by including a new section that permits a bank holding company to elect to become a financial holding company to engage in a full range of activities that are "financial in nature." The qualification requirements and the process for a bank holding company that elects to be treated as a financial holding company require that all of the subsidiary banks controlled by the bank holding company at the time of election to become a financial holding company must be and remain at all times "well-capitalized" and "well managed." EuroBancshares made an election to become a financial holding company on September 20, 2002.

The Gramm-Leach-Bliley Act further requires that, in the event that the bank holding company elects to become a financial holding company, the election must be made by filing a written declaration with the appropriate Federal Reserve Bank that:

- states that the bank holding company elects to become a financial holding company;
- provides the name and head office address of the bank holding company and each depository institution controlled by the bank holding company;

- certifies that each depository institution controlled by the bank holding company is “well-capitalized” as of the date the bank holding company submits its declaration;
- provides the capital ratios for all relevant capital measures as of the close of the previous quarter for each depository institution controlled by the bank holding company; and
- certifies that each depository institution controlled by the bank holding company is “well managed” as of the date the bank holding company submits its declaration.

The bank holding company must have also achieved at least a rating of “satisfactory record of meeting community credit needs” under the Community Reinvestment Act during the institution’s most recent examination.

Financial holding companies may engage, directly or indirectly, in any activity that is determined to be:

- financial in nature;
- incidental to such financial activity; or
- complementary to a financial activity provided it “does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.”

The Gramm-Leach-Bliley Act specifically provides that the following activities have been determined to be “financial in nature”: lending, trust and other banking activities; insurance activities; financial or economic advisory services; securitization of assets; securities underwriting and dealing; existing bank holding company domestic activities; existing bank holding company foreign activities and merchant banking activities. In addition, the Gramm-Leach-Bliley Act specifically gives the Federal Reserve Board the authority, by regulation or order, to expand the list of “financial” or “incidental” activities, but requires consultation with the United States Treasury Department, and gives the Federal Reserve Board authority to allow a financial holding company to engage in any activity that is “complementary” to a financial activity and does not “pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.”

Privacy Policies

Under the Gramm-Leach-Bliley Act, all financial institutions are required to adopt privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties and establish procedures and practices to protect customer data from unauthorized access. EuroBancshares and its subsidiaries have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Safe and Sound Banking Practices

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board’s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company’s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1 million for each day the activity continues.

Annual Reporting; Examinations

We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board

may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such the examination.

Capital Adequacy Requirements

The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of certain large bank holding companies. Prior to March 30, 2006, these capital guidelines were applicable to all bank holding companies having \$150 million or more in assets on a consolidated basis. However, effective March 30, 2006, the Federal Reserve Board amended the asset size threshold to \$500 million for purposes of determining whether a bank holding company is subject to the capital adequacy guidelines. EuroBancshares currently has consolidated assets in excess of \$500 million and is therefore subject to the Federal Reserve Board's capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. To be considered "well-capitalized," a bank holding company must maintain, on a consolidated basis, (i) a Tier 1 risk-based capital ratio of at least 6.0%, and (ii) a total risk-based capital ratio of 10.0% or greater. As of December 31, 2007, our Tier 1 risk-based capital ratio was 9.54% and its total risk-based capital ratio was 10.79%. Thus, EuroBancshares is considered "well-capitalized" for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. As of December 31, 2007, our leverage ratio was 7.55%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Imposition of Liability for Undercapitalized Subsidiaries

Bank regulators are required to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all, or substantially all, of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the

bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

Control Acquisitions

The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute acquisition of control.

In addition, any company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquiror that is a bank holding company) or more of the outstanding common stock of the company, or otherwise obtaining control or a "controlling influence" over the company.

Cross-guarantees

Under the Federal Deposit Insurance Act, or FDIA, a depository institution (which definition includes both banks and savings associations), the deposits of which are insured by the FDIC, can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution or (2) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution "in danger of default." "Default" is defined generally as the appointment of a conservator or a receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance. In some circumstances (depending upon the amount of the loss or anticipated loss suffered by the FDIC), cross-guarantee liability may result in the ultimate failure or insolvency of one or more insured depository institutions in a holding company structure. Any obligation or liability owed by a subsidiary bank to its parent company is subordinated to the subsidiary bank's cross-guarantee liability with respect to commonly controlled insured depository institutions. Eurobank is currently the only FDIC-insured depository institution subsidiary of EuroBancshares.

Because EuroBancshares is a legal entity separate and distinct from Eurobank, its right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of Eurobank, the claims of depositors and other general or subordinated creditors of Eurobank would be entitled to a priority of payment over the claims of holders of any obligation of Eurobank to its shareholders, including any depository institution holding company (such as EuroBancshares) or any shareholder or creditor of such holding company.

Anti-Terrorism Legislation

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001. Also known as the "Patriot Act," the law enhances the powers of the federal government and law enforcement organizations to combat terrorism, organized crime, and money laundering. The Patriot Act significantly amends and expands the application of the Bank Secrecy Act, including enhanced measures regarding customer identity, new suspicious activity reporting rules, and enhanced anti-money laundering programs.

Under the Patriot Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the Patriot Act, financial institutions must also establish anti-money laundering programs. The Patriot Act sets forth minimum standards for these programs, including: (i) the development of internal policies, procedures and controls; (ii) the designation of a compliance officer; (iii) an ongoing employee training program; and (iv) an independent audit function to test the adequacy of such programs.

In addition, the Patriot Act requires bank regulatory agencies to consider the record of a bank in combating money laundering activities in their evaluation of bank and bank holding company merger or acquisition transactions. Regulations proposed by the U.S. Department of the Treasury to effect certain provisions of the Patriot Act provide that all transaction or other correspondent accounts held by a U.S. financial institution on behalf of any foreign bank must be closed within 90 days after the final regulations are issued, unless the foreign bank has provided the U.S. financial institution with a means of verification that the institution is not a "shell bank." Proposed regulations interpreting other provisions of the Patriot Act continue to be issued.

Under the authority of the Patriot Act, the Secretary of the Treasury adopted rules on September 26, 2002 increasing the cooperation and information sharing among financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Under those rules, a financial institution is required to:

- expeditiously search its records to determine whether it maintains or has maintained accounts, or engaged in transactions with individuals or entities, listed in a request submitted by the Financial Crimes Enforcement Network ("FinCEN");
- notify FinCEN if an account or transaction is identified;
- designate a contact person to receive information requests;
- limit use of information provided by FinCEN to (i) reporting to FinCEN, (ii) determining whether to establish or maintain an account or engage in a transaction, and (iii) assisting the financial institution in complying with the Bank Secrecy Act; and
- maintain adequate procedures to protect the security and confidentiality of FinCEN requests.

Under the new rules, a financial institution may also share information regarding individuals, entities, organizations, and countries for purposes of identifying and, as appropriate, reporting activities that it suspects may involve possible terrorist activity or money laundering. Such information-sharing is protected under a safe harbor if the financial institution: (i) notifies FinCEN of its intention to share information, even when sharing with an affiliated financial institution; (ii) takes reasonable steps to verify that, prior to sharing, the financial institution or association of financial institutions with which it intends to share information has submitted a notice to FinCEN; (iii) limits the use of shared information to identifying and reporting on money laundering or terrorist activities, determining whether to establish or maintain an account or engage in a transaction, or assisting it in complying with the Bank Security Act; and (iv) maintains adequate procedures to protect the security and confidentiality of the information. Any financial institution complying with these rules will not be deemed to have violated the privacy requirements discussed above.

The Secretary of the Treasury also adopted a rule on September 26, 2002 intended to prevent money laundering and terrorist financing through correspondent accounts maintained by U.S. financial institutions on behalf of foreign banks. Under the rule, financial institutions: (i) are prohibited from providing correspondent accounts to foreign shell banks; (ii) are required to obtain a certification from foreign banks for which they maintain a correspondent account stating the foreign bank is not a shell bank and that it will not permit a foreign shell bank to have access to the U.S. account; (iii) must maintain records identifying the owner of the foreign bank for which they may maintain a correspondent account and its agent in the United States designated to accept services of legal

process; and (iv) must terminate correspondent accounts of foreign banks that fail to comply with or fail to contest a lawful request of the Secretary of the Treasury or the Attorney General of the United States, after being notified by the Secretary or Attorney General.

As previously mentioned, on March 13, 2007, Eurobank, the wholly-owned banking subsidiary of EuroBancshares, Inc., and the Board of Directors of Eurobank executed and entered into, without admitting or denying the allegations, a Stipulation and Consent Order (the "Stipulation") with the Federal Deposit Insurance Corp. (the "FDIC") agreeing to the issuance of a Cease and Desist Order. The order, which was issued by the FDIC on March 15, 2007, was based upon the findings of a joint examination of the Bank by the FDIC and the Commonwealth of Puerto Rico Office of the Commissioner of Financial Institutions. There were no fines or civil money penalties imposed on the Bank in connection with the examination findings. The joint examination was concluded in October 2006 and the Bank signed the Stipulation on March 13, 2007.

The findings set out in the joint Report of Examination concluded that the Bank Secrecy Act/Anti-Money Laundering Program ("BSA Program") at the Bank was deficient based upon allegations of inadequate training for bank personnel, an inadequate system of independent testing for BSA compliance, failure to comply with certain recordkeeping requirements, and failure to comply completely with the rules of the Office of Foreign Assets Control ("OFAC"). The Order contains several Articles, each addressing a separate issue concerning the BSA Program and its operation. The Order lays out the specific steps the Bank needs to take in order to bring the BSA Program back into compliance with the laws and regulations, including, among others, requirements that the Bank: (i) perform a new risk assessment of the Bank's operations; (ii) adopt and implement new procedures for customer due diligence; (iii) amend its policies and procedures for identifying and monitoring high-risk accounts; (iv) amend its procedures for monitoring currency transactions and wire transfers; (v) amend its policies and procedures for detecting and reporting suspicious activity; (vi) strengthen its Customer Identification Program procedures; and (vii) ensure that it has the necessary staffing, properly trained, to manage the BSA program. Each of these requirements and the various deadlines for remediation are described in more detail in the Order.

In response to the requirements of the Order, management and the Board of Directors of the Bank are in the process of developing an enhanced corrective action plan designed to remediate the remaining deficiencies alleged in the Order and continue to need correction or enhancements. As part of this process, the Bank has engaged an independent, third party consultant to assist with the development and implementation of its corrective action plan.

Sarbanes-Oxley Act of 2002

In July 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which implemented legislative reforms intended to address corporate and accounting fraud. The Sarbanes-Oxley Act contains reforms of various business practices and numerous aspects of corporate governance. Most of these requirements have been implemented pursuant to regulations issued by the SEC. The following is a summary of certain key provisions of the Sarbanes-Oxley Act.

In addition to the establishment of a new accounting oversight board that enforces auditing, quality control and independence standards and is funded by fees from all registered public accounting firms and publicly traded companies, the Sarbanes-Oxley Act places restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client requires pre-approval by the client's audit committee. Also, the Sarbanes-Oxley Act makes certain changes to the requirements for partner rotation after a period of time. The Sarbanes-Oxley Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. Furthermore, counsel is required to report evidence of a material violation of securities laws or a breach of fiduciary duties to the company's chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under this law, longer prison terms apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules or regulations) are restricted. In addition, the legislation accelerates the time frame for

disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers required to report changes in ownership in a company's securities must now report any such change within two business days of the change.

The Sarbanes-Oxley Act increases responsibilities and codifies certain requirements relating to audit committees of public companies and how they interact with the company's registered public accounting firm. Audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the company. In addition, companies are required to disclose whether at least one member of the committee is a "financial expert" (as such term is defined by the SEC) and if not, why not. A company's registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if the company's chief executive officer, chief financial officer, controller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Sarbanes-Oxley Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading.

The Sarbanes-Oxley Act also has provisions relating to inclusion of certain internal control reports and assessments by management in the annual report to stockholders. EuroBancshares is required to include an internal control report containing management's assertions regarding the effectiveness of its internal control structure and procedures over financial reporting. The internal control report must include statements regarding management's responsibility for establishing and maintaining adequate internal control over financial reporting; management's assessment as to the effectiveness of the company's internal control over financial reporting, based on management's evaluation of it as of year-end; and of the framework used as criteria for evaluating the effectiveness of the company's internal control over financial reporting. The law also requires the company's registered public accounting firm that issues the audit report to attest to, and report on the company's internal controls over financial reporting in accordance with standards for attestation engagements issued or adopted by the Public Company Accounting Oversight Board.

Eurobank

Eurobank is subject to extensive regulation and examination by the Commissioner of Financial Institutions of Puerto Rico and the FDIC, which insures its deposits to the maximum extent permitted by law, and is subject to certain Federal Reserve Board regulations of transactions with its affiliates. The federal and Puerto Rico laws and regulations which are applicable to Eurobank, regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. In addition to the impact of such regulations, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

Transactions with Affiliates

There are various statutory and regulatory limitations, including those set forth in sections 23A and 23B of the Federal Reserve Act and Regulation W, governing the extent to which Eurobank will be able to purchase assets from or securities of or otherwise finance or transfer funds to EuroBancshares or its nonbanking subsidiaries. Among other restrictions, such transfers by Eurobank to EuroBancshares or any of its nonbanking subsidiaries generally will be limited to 10.0% of Eurobank's capital and surplus and, with respect to EuroBancshares and all such nonbanking subsidiaries, to an aggregate of 20.0% of Eurobank's subsidiary's capital and surplus. Furthermore, loans and extensions of credit are required to be secured in specified amounts and are required to be on terms and conditions consistent with safe and sound banking practices.

In addition, any transaction by a bank with an affiliate and any sale of assets or provision of services to an affiliate generally must be on terms that are substantially the same, or at least as favorable, to the bank as those prevailing at the time for comparable transactions with nonaffiliated companies.

Loans to Insiders

Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal stockholders. Under Section 22(h),

loans to a director, an executive officer and to a greater than 10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank's loans-to-one-borrower limit (generally equal to 15% of the institution's unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior Board of Directors approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Dividends

The ability of Eurobank to pay dividends on its common stock is restricted by the Puerto Rico Banking Act of 1933, as amended, the FDIA and FDIC regulations. In general terms, the Puerto Rico Banking Act provides that when the expenditures of a bank are greater than receipts, the excess of expenditures over receipts shall be charged against the undistributed profits of the bank and the balance, if any, shall be charged against the required reserve fund of the bank. If there is no sufficient reserve fund to cover such balance in whole or in part, the outstanding amount shall be charged against the bank's capital account. The Puerto Rico Banking Act provides that until said capital has been restored to its original amount and the reserve fund to 20% of the original capital, the bank may not declare any dividends. In general terms, the FDIA and the FDIC regulations restrict the payment of dividends when a bank is undercapitalized, when a bank has failed to pay insurance assessments, or when there are safety and soundness concerns regarding a bank.

The payment of dividends by Eurobank may also be affected by other regulatory requirements and policies, such as maintenance of adequate capital. If, in the opinion of the regulatory authority, a depository institution under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (that, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require, after notice and hearing, that such depository institution cease and desist from such practice. The Federal Reserve Board has issued a policy statement that provides that insured banks and bank holding companies should generally pay dividends only out of operating earnings for the current and preceding two years. In addition, all insured depository institutions are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991.

FDIC Capital Requirements

Eurobank is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators.

The FDIC and the Commissioner of Financial Institutions of Puerto Rico monitor the capital adequacy of Eurobank by using a combination of risk-based guidelines and leverage ratios. The agencies consider the bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system.

Under the risk-based capital guidelines, a risk weight factor of 0% to 100% is assigned to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a "risk-weighted" asset base. At least half of the risk-based capital must consist of core (Tier 1) capital, which is comprised of:

- common stockholders' equity (includes common stock and any related surplus, undivided profits, disclosed capital reserves that represent a segregation of undivided profits, and foreign currency translation adjustments; less net unrealized losses on marketable equity securities);
- certain noncumulative perpetual preferred stock and related surplus; and
- minority interests in the equity capital accounts of consolidated subsidiaries, and excludes goodwill and various intangible assets.

The remainder, supplementary (Tier 2) capital, may consist of:

- allowance for loan and lease losses, up to a maximum of 1.25% of risk-weighted assets;
- certain perpetual preferred stock and related surplus;
- hybrid capital instruments;
- perpetual debt;
- mandatory convertible debt securities;
- term subordinated debt;
- intermediate-term preferred stock; and
- certain unrealized holding gains on equity securities.

"Total risk-based capital" is determined by combining core capital and supplementary capital.

Under the regulatory capital guidelines, Eurobank must maintain a total risk-based capital to risk-weighted assets ratio of at least 8.0%, a Tier 1 capital to risk-weighted assets ratio of at least 4.0%, and a Tier 1 capital to adjusted total assets ratio of at least 4.0% (3.0% for banks receiving the highest examination rating) to be considered adequately capitalized. See discussion in the section below captioned "*The FDIC Improvement Act.*"

FIRREA

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, or FIRREA, includes various provisions that affect or may affect Eurobank. Among other matters, FIRREA generally permits bank holding companies to acquire healthy thrifts as well as failed or failing thrifts. FIRREA removed certain cross-marketing prohibitions previously applicable to thrift and bank subsidiaries of a common holding company. Furthermore, a multi-bank holding company may now be required to indemnify the federal deposit insurance fund against losses it incurs with respect to such company's affiliated banks, which in effect makes a bank holding company's equity investments in healthy bank subsidiaries available to the FDIC to assist such company's failing or failed bank subsidiaries.

In addition, pursuant to FIRREA, any depository institution that has been chartered less than two years, is not in compliance with the minimum capital requirements of its primary federal banking regulator, or is otherwise in a troubled condition must notify its primary federal banking regulator of the proposed addition of any person to the Board of Directors or the employment of any person as a senior executive officer of the institution at least 30 days before such addition or employment becomes effective. During such 30-day period, the applicable federal banking regulatory agency may disapprove of the addition of employment of such director or officer. Eurobank is not subject to any such requirements.

FIRREA also expanded and increased civil and criminal penalties available for use by the appropriate regulatory agency against certain "institution-affiliated parties" primarily including (i) management, employees and agents of a financial institution, as well as (ii) independent contractors such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs and who caused or are likely to cause more than minimum financial loss to or a significant adverse affect on the institution, who knowingly or recklessly violate a law or regulation, breach a fiduciary duty or engage in unsafe or unsound practices. Such practices can include the failure of an institution to timely file required reports or the submission of inaccurate reports. Furthermore, FIRREA authorizes the appropriate banking agency to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets or take other action as determined by the ordering agency to be appropriate.

The FDIC Improvement Act

The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign

depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of \$500 million to have an annual independent audit made of the bank's financial statements by a certified public accountant to verify that the financial statements of the bank are presented in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC.

FDICIA also places certain restrictions on activities of banks depending on their level of capital. FDICIA divides banks into five different categories, depending on their level of capital. Under regulations adopted by the FDIC, a bank is deemed to be "well-capitalized" if it has a total Risk-Based Capital Ratio of 10.0% or more, a Tier 1 Capital Ratio of 6.0% or more and a Leverage Ratio of 5.0% or more, and the bank is not subject to an order or capital directive to meet and maintain a certain capital level. Under such regulations, a bank is deemed to be "adequately capitalized" if it has a total Risk-Based Capital Ratio of 8.0% or more, a Tier 1 Capital Ratio of 4.0% or more and a Leverage Ratio of 4.0% or more (unless it receives the highest composite rating at its most recent examination and is not experiencing or anticipating significant growth, in which instance it must maintain a Leverage Ratio of 3.0% or more). Under such regulations, a bank is deemed to be "undercapitalized" if it has a total Risk-Based Capital Ratio of less than 8.0%, a Tier 1 Capital Ratio of less than 4.0% or a Leverage Ratio of less than 4.0%. Under such regulations, a bank is deemed to be "significantly undercapitalized" if it has a Risk-Based Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0% and a Leverage Ratio of less than 3.0%. Under such regulations, a bank is deemed to be "critically undercapitalized" if it has a Leverage Ratio of less than or equal to 2.0%. In addition, the FDIC has the ability to downgrade a bank's classification (but not to "critically undercapitalized") based on other considerations even if the bank meets the capital guidelines. According to these guidelines, Eurobank was classified as "well-capitalized" as of December 31, 2007.

In addition, if a state non-member bank is classified as undercapitalized, the bank is required to submit a capital restoration plan to the FDIC. Pursuant to FDICIA, an undercapitalized bank is prohibited from increasing its assets, engaging in a new line of business, acquiring any interest in any company or insured depository institution, or opening or acquiring a new branch office, except under certain circumstances, including the acceptance by the FDIC of a capital restoration plan for the bank.

Furthermore, if a state non-member bank is classified as undercapitalized, the FDIC may take certain actions to correct the capital position of the bank; if a bank is classified as significantly undercapitalized or critically undercapitalized, the FDIC would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring: sales of new securities to bolster capital; improvements in management; limits on interest rates paid; prohibitions on transactions with affiliates; termination of certain risky activities and restrictions on compensation paid to executive officers. If a bank is classified as critically undercapitalized, FDICIA requires the bank to be placed into conservatorship or receivership within ninety days, unless the FDIC determines that other action would better achieve the purposes of FDICIA regarding prompt corrective action with respect to undercapitalized banks.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the FDIC is required to conduct a full-scope, on-site examination of every bank at least once every twelve months. An exception to this rule is made, however, that provides that banks (i) with assets of less than \$100 million, (ii) are categorized as "well-capitalized," (iii) were found to be well managed and its composite rating was outstanding and (iv) has not been subject to a change in control during the last twelve months, need only be examined by the FDIC once every eighteen months.

Broker Deposits

Under FDICIA, banks may be restricted in their ability to accept broker deposits, depending on their capital classification. "Well-capitalized" banks are permitted to accept broker deposits, but all banks that are not well-capitalized could be restricted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept broker deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank. Deposits obtained from financial intermediaries, so-called "broker deposits," represented approximately 67.06% of Eurobank's total deposits as of

December 31, 2007. As previously mentioned, Eurobank is currently well-capitalized and therefore is not subject to any limitations with respect to its broker deposits.

Federal Limitations on Activities and Investments

The equity investments and activities as a principal of FDIC-insured state-chartered banks such as Eurobank are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank.

FDIC Deposit Insurance Assessments

In addition, under FDICIA, the Federal Deposit Insurance Corporation, or FDIC, is authorized to assess insurance premiums on a bank's deposits at a variable rate depending on the probability that the deposit insurance fund will incur a loss with respect to the bank. (Under prior law, the deposit insurance assessment was a flat rate, regardless of the likelihood of loss.) In this regard, the FDIC has issued regulations that provide for a transitional risk-based deposit assessment that determines the deposit insurance assessment rates on the basis of the bank's capital classification and supervisory evaluations. Each of these categories has three subcategories, resulting in nine assessment risk classifications. The three subcategories with respect to capital are "well-capitalized," "adequately capitalized" and "less than adequately capitalized" (which would include "undercapitalized," "significantly undercapitalized" and "critically undercapitalized" banks). The three subcategories with respect to supervisory concerns are "healthy," "supervisory concern" and "substantial supervisory concern." A bank is deemed "healthy" if it is financially sound with only a few minor weaknesses. A bank is deemed subject to "supervisory concern" if it has weaknesses that, if not corrected, could result in significant deterioration of the bank and increased risk to the Bank Insurance Fund, or BIF. A bank is deemed subject to "substantial supervisory concern" if it poses a substantial probability of loss to the BIF.

On June 30, 1996, the Deposit Insurance Funds Act of 1996, or DIFA, was enacted and signed into law as part of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. DIFA established the framework for the eventual merger of the BIF and the Savings Association Insurance Fund, or SAIF, into a single Deposit Insurance Fund. It repealed the statutory minimum premium and, under implementing FDIC regulations promulgated in 1997, premiums assessed by both the BIF and the SAIF are to be assessed using the matrix described above at a rates between 0 cents and 27 cents per \$100 of deposits.

DIFA also separated, effective January 1, 1997, the Financing Corporation, or FICO, assessment to service the interest on its bond obligations from the BIF and SAIF assessments. The amount assessed on individual institutions by the FICO would be in addition to the amount, if any, paid for deposit insurance according to the FDIC's risk-related assessment rate schedules. The FICO rate could be adjusted quarterly to reflect changes in assessment bases for the BIF and the SAIF. Accordingly, Eurobank could be subject to two separate premiums (for servicing interest on bond obligations and for the BIF/SAIF insurance), if such premiums were assessed. The FDIC acts as collection agent for the FICO.

In addition, DIFA authorized the FICO to assess both BIF and SAIF insured deposits, and required the BIF rate to equal one-fifth the SAIF rate through year-end 1999, or until insurance funds were merged, whichever occurred first. On March 31, 2006, the BIF and SAIF were merged into a newly created Deposit Insurance Fund (DIF).

In October 2006, as required by the Federal Deposit Insurance Reform Act of 2005, the FDIC issued a final rule to implement the one-time deposit insurance assessment credit. During 2007, the FDIC applied an eligible institution's assessment credit (less any portion of the credit transferred to another institution) against the institution's future assessments to the maximum extent allowed by the statute. The one-time assessment credit could not be used to reduce FICO payments. The one time assessment credit for Eurobank, our wholly owned banking subsidiary, amounted to approximately \$669,000 and was used to reduce the FDIC's new insurance premium assessment during 2007, as further explained below.

In November 2006, the FDIC adopted a final rule amending its assessment regulations to improve and modernize its operational systems for deposit insurance assessments. Since 2007, the FDIC has categorized each insured institution into one of four risk categories following a two-step process, which evaluate first the capital ratios of the insured institution and then, other relevant information. The FDIC's new insurance premium rates

range between 5 and 43 cents per \$100 in accessible deposits. For the year ended December 31, 2007, total FDIC insurance premiums amounted to \$892,000, net of the one time assessment credit of \$669,000, as previously explained.

The FDIC may terminate the deposit insurance of any insured depository institution, including Eurobank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of Eurobank's deposit insurance.

Check Clearing for the 21st Century Act

On October 28, 2003, President Bush signed into law the Check Clearing for the 21st Century Act, also known as Check 21. The law, which was not effective until October 28, 2004, gave "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

This legislation will likely affect bank capital spending as many financial institutions assess whether technological or operational changes are necessary to stay competitive and take advantage of the new opportunities presented by Check 21.

Community Reinvestment Act

Under the Community Reinvestment Act, or CRA, as implemented by the Congress in 1977, a financial institution has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires federal examiners, in connection with the examination of a financial institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. EuroBancshares has a Compliance Committee, which oversees the planning of products, and services offered to the community, especially those aimed to serve low and moderate income communities. The FDIC rated Eurobank as "satisfactory" in meeting community credit needs under the CRA at its most recent examination for CRA performance.

Consumer Laws and Regulations

In addition to the laws and regulations discussed herein, Eurobank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Eurobank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

Interstate Branching

Effective June 1, 1997, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 amended the FDIA and certain other statutes to permit state and national banks with different home states to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank had passed legislation prior to May 31, 1997 expressly prohibiting interstate mergers. Under the Riegle-Neal Act amendments, once a state or national bank has established branches in a state, that bank may establish and acquire additional branches at any location in the state at which any bank involved in the interstate merger transaction could have established or acquired branches under applicable federal or state law. If a state opts out of interstate branching within the specified time period, no bank in any other state may establish a branch in the state which has opted out, whether through an acquisition or de novo.

For purposes of the Riegle-Neal Act's amendments to the FDIA, Eurobank is treated as a state bank and is subject to the same restrictions on interstate branching as other state banks. However, for purposes of the International Banking Act of 1978, Eurobank is considered to be a foreign bank and may branch interstate by merger or de novo to the same extent as a domestic bank in Eurobank's home state. It is not yet possible to determine how these statutes will be harmonized, with respect either to which federal agency will approve interstate transactions or to which "home state" determination rules will apply.

Eurobank currently does not have any branches outside Puerto Rico.

Federal Home Loan Bank System

The FHLB system, of which Eurobank is a member, consists of 12 regional FHLBs governed and regulated by the Federal Housing Finance Board. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (*i.e.*, advances) to members in accordance with policies and procedures established by the FHLB and the boards of directors of each regional FHLB.

As a system member, Eurobank is entitled to borrow from the FHLB of New York, or FHLB-NY, and is required to own capital stock in the FHLB-NY in an amount equal to the greater of 1% of the aggregate of the unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each fiscal year, which for this purpose is deemed to be not less than 30% of assets or 5% of the total amount of advances by the FHLB-NY to Eurobank. Eurobank is in compliance with the stock ownership rules described above with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB-NY to Eurobank are secured by a portion of its mortgage loan portfolio, certain other investments and the capital stock of the FHLB-NY held by Eurobank.

Mortgage Banking Operations

Eurobank is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and

settlement costs. Eurobank is also subject to regulation by the Commissioner of Financial Institutions of Puerto Rico, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

Puerto Rico Regulation

As a commercial bank organized under the laws of Puerto Rico, Eurobank is subject to the supervision, examination and regulation of the Commissioner of Financial Institutions of Puerto Rico, pursuant to the Puerto Rico Banking Act of 1933, as amended. Certain of those activities are described in this "*Supervision and Regulation*" section above.

Puerto Rico Banking Law

Section 12 of the Puerto Rico Banking Law requires the prior approval of the Commissioner of Financial Institutions of Puerto Rico with respect to a transfer of capital stock of a bank that results in a change of control of the bank. Under Section 12, a change of control is presumed to occur if a person or group of persons acting in concert, directly or indirectly, acquires more than 5.0% of the outstanding voting capital stock of the bank. The Commissioner of Financial Institutions of Puerto Rico has interpreted the restrictions of Section 12 as applying to acquisitions of voting securities of entities controlling a bank, such as a bank holding company. Under the Puerto Rico Banking Law, the determination of the Commissioner of Financial Institutions of Puerto Rico whether to approve a change of control filing is final and non-appealable.

Section 16 of the Puerto Rico Banking Law requires every bank to maintain a legal reserve which shall not be less than 20% of its demand liabilities, except government deposits (federal, state and municipal) which are secured by actual collateral. The reserve is required to be composed of any of the following securities or combination thereof: (1) legal tender of the United States; (2) checks on banks or trust companies located in any part of Puerto Rico, to be presented for collection during the day following that on which they are received; (3) money deposited in other banks or depository institutions, subject to immediate collection; (4) federal funds sold to any Federal Reserve Bank and securities purchased under agreement to resell executed by the bank with such funds that are subject to be repaid to the bank on or before the close of the next business day and (5) any other asset that the Commissioner of Financial Institutions of Puerto Rico determines from time to time.

Section 17 of the Puerto Rico Banking Law permits Puerto Rico commercial banks to make unsecured loans to any one person, firm, partnership or corporation, up to an aggregate amount of 15.0% the sum of (i) paid-in capital; (ii) reserve fund of the commercial bank; (iii) 50.0% of the commercial bank's retained earnings and (iv) any other components that the Commissioner of Financial Institutions of Puerto Rico may determine from time to time. As of December 31, 2007, the legal lending limit for Eurobank under this provision was approximately \$17.0 million. If such loans are secured by collateral worth at least 25.0% more than the amount of the loan, the aggregate maximum amount may reach one-third of the sum of Eurobank's paid-in capital, reserve fund, 50% of retained earnings and any other components that the Commissioner of Financial Institutions of Puerto Rico may determine from time to time. As of December 31, 2007, the legal lending limit for Eurobank under this provision was approximately \$37.8 million. There are no restrictions under Section 17 of the Puerto Rico Banking Law on the amount of loans which are fully secured by bonds, securities and other evidences of indebtedness of the Government of the United States, of the Commonwealth of Puerto Rico, or by bonds, not in default, of authorities, instrumentalities or dependencies of the Commonwealth of Puerto Rico or its municipalities.

Section 17 of the Puerto Rico Banking Law also prohibits Puerto Rico commercial banks from making loans secured by their own stock and from purchasing their own stock, unless such purchase is necessary to prevent losses because of a debt previously contracted in good faith. The stock so purchased by the Puerto Rico commercial bank must be sold by the bank in a public or private sale within one year from the date of purchase.

Section 27 of the Puerto Rico Banking Law also requires that at least 10.0% of the yearly net income of a Puerto Rico commercial bank be credited to a reserve fund until the amount deposited to the credit of the reserve fund is equal to 100.0% of total paid-in capital (common and preferred) of the commercial bank. As of December 31, 2007, Eurobank had \$8.0 million in its reserve fund.

Section 27 of the Puerto Rico Banking Law also provides that when the expenditures of a Puerto Rico commercial bank are greater than receipts, the excess of the expenditures over receipts shall be charged against the undistributed profits of the bank, and the balance, if any, shall be charged against the reserve fund, as a reduction

thereof. If there is no reserve fund sufficient to cover such balance in whole or in part, the outstanding amount shall be charged against the capital account and no dividends shall be declared until said capital has been restored to its original amount and the reserve fund to 20% of the original capital of the bank.

Section 14 of the Puerto Rico Banking Law authorizes Eurobank to conduct certain financial and related activities directly or through subsidiaries, including lease financing of personal property, operating small loans companies and mortgage loans activities. In 2004, Eurobank organized an IBE subsidiary, EBS Overseas.

Puerto Rico Usury Law

The rate of interest that Eurobank may charge on real estate and other types of loans to individuals in Puerto Rico is subject to Puerto Rico's usury law. That law is administered by the Finance Board, which consists of the Secretaries of the Treasury, Commerce and Consumer Affairs Departments, the Commissioner of Financial Institutions of Puerto Rico, the President of the Planning Board, the President of the Government Development Bank for Puerto Rico, the Secretary of Economic Development and Commerce Department and a representative of the private financial industry. The Finance Board promulgates regulations which specify maximum rates on various types of loans to individuals and revises those regulations periodically as general interest rates change.

Among the most important regulations enforced on interest rates are Regulations 5722, 5782 and 6070. Pursuant to Regulation 5782, there is no limitation on interest rates that may be charged on small personal loans. The same rule applies to retail installment sale contracts and credit card loans as provided by Regulation 6070. The rates on these loans are established as a result of the market and competition.

Interest rates that may be charged on personal loans, personal lines of credit, cash advances on credit cards, commercial loans or commercial lines of credit and residential and commercial mortgage loans are not restricted by Regulation 5722. The rates on these loans are established as a result of the market and competition. Regulation 5722 does establish restrictions on prepayment penalties and late charges for all loans, except commercial loans.

International Banking Center Regulatory Act

In 2004, we transferred all of the assets and liabilities of Eurobank International, an IBE that operated as a division of Eurobank, to an IBE subsidiary of Eurobank, EBS Overseas, Inc. We also have an IBE that operates as a division of Eurobank under the name EBS International Bank. This IBE was acquired under the name of BT International in connection with the acquisition of BankTrust and changed to EBS International Bank on September 27, 2005. We have continued to operate EBS International as a division of Eurobank and do not have immediate plans to transfer its assets to our subsidiary, EBS Overseas, Inc.

The business and operations of our IBEs are subject to supervision and regulation by the Commissioner of Financial Institutions of Puerto Rico. Under the IBE Act, no sale, encumbrance, assignment, merger, exchange or transfer of shares, interest or participation in the capital of an IBE may be initiated without the prior approval of the Commissioner of Financial Institutions of Puerto Rico, if by such transaction a person would acquire, directly or indirectly, control of 10% or more of any class of stock, interest or participation in the capital of the IBE. The IBE Act and the regulations issued thereunder by the Commissioner of Financial Institutions of Puerto Rico limit the business activities that may be carried out by an IBE. Such activities are limited in part to persons and assets located outside of Puerto Rico. The IBE Act provides further that every IBE must have not less than \$300,000 of unencumbered assets or acceptable financial guarantees.

Pursuant to the IBE Act and the IBE regulations, our IBEs must maintain books and records of all their transactions in the ordinary course of business. The IBEs are also required to submit to the Commissioner of Financial Institutions of Puerto Rico quarterly and annual reports of their financial condition and results of operations, including annual audited financial statements for EBS Overseas, Inc.

The IBE Act empowers the Commissioner of Financial Institutions of Puerto Rico to revoke or suspend, after notice and hearing, a license issued thereunder if, among other things, the IBE fails to comply with the IBE Act, the IBE regulations or the terms of its license, or if the Commissioner of Financial Institutions of Puerto Rico finds that the business or affairs of the IBE are conducted in a manner that is not consistent with the public interest.

IBEs generally are exempt from taxation under United States federal law and Puerto Rico law. The Legislature of Puerto Rico and the Governor of Puerto Rico approved a law amending the IBE Act. This law

imposes income taxes at normal statutory rates on each IBE that operates as a unit of a bank, if the IBE's net income generated after December 31, 2003 exceeds 40% of the bank's net income in the taxable year commenced on July 1, 2003, 30% of the bank's net income in the taxable year commencing on July 1, 2004, and 20% of the bank's net income in the taxable year commencing on July 1, 2005, and thereafter. It does not impose income taxation on an IBE that operates as a subsidiary of a bank. Thus, only EBS International Bank, which operates as a division of Eurobank rather than a subsidiary, is impacted by the new law. However, we cannot give any assurance that the IBE Act will not be modified in the future in a manner to reduce the tax benefits available to EBS Overseas. A reduction of such tax benefits may reduce our earnings.

EuroSeguros, Inc.

EuroSeguros is a wholly-owned subsidiary of EuroBancshares and is registered as a corporate agent and general agency with the Office of the Commissioner of Insurance of the Commonwealth of Puerto Rico. EuroSeguros is subject to regulation by the Commissioner of Insurance relating to, among other things, licensing of employees, sales practices, charging of commissions and obligations to customers.

Future Legislation and Economic Policy

Management of EuroBancshares and Eurobank cannot predict what other legislation or economic and monetary policies of the various regulatory authorities might be enacted or adopted or what other regulations might be adopted or the effects thereof. Future legislation and policies and the effects thereof might have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid from time and savings deposits. Such legislation and policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

ITEM 1A. Risk Factors.

Risks Relating to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for loan and lease losses may be inadequate, which could materially and adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Our loan and lease portfolio and investments in marketable securities subject us to credit risk. Inherent risks in lending also include fluctuations in collateral values and economic downturns. Making loans and leases is an essential element of our business, and there is a risk that our loans and leases will not be repaid.

We attempt to maintain an appropriate allowance for loan and lease losses to provide for losses inherent in our loan and lease portfolio. As of December 31, 2007, our allowance for loan and lease losses totaled \$28.1 million, which represents approximately 1.51% of our total loans and leases. There is no precise method of predicting loan and lease losses, and therefore, we always face the risk that charge-offs in future periods will exceed our allowance for loan and lease losses and that we would need to make additional provisions to our allowance for loan and lease losses.

Our methodology for the determination of the adequacy of the allowance for loan and lease losses for impaired loans is based on classifications of loans and leases into various categories and the application of SFAS No. 114, as amended. For non-classified loans, the estimated allowance is based on historical loss experiences as adjusted for changes in trends and conditions on at least an annual basis. In addition, on a quarterly basis, the estimated allowance for non-classified loans is adjusted for the probable effect that current environmental factors could have on the historical loss factors currently in use. While our allowance for loan and lease losses is established in different portfolio components, we maintain an allowance that we believe is sufficient to absorb all credit losses inherent in our portfolio.

In addition, the FDIC as well as the Commissioner of Financial Institutions of Puerto Rico review our allowance for loan and lease losses and may require us to establish additional reserves. Additions to the allowance for loan and lease losses will result in a decrease in our net earnings and capital and could hinder our ability to grow our assets.

We have a concentration of exposure to a number of individual borrowers and a significant loss on any one of these credits could materially affect our financial condition and results of operations.

Under applicable law, there are quantitative limitations on the amount of loans we can make to one borrower or a group of related borrowers. As of December 31, 2007, our legal lending limit was approximately \$17.0 million in the unsecured category, and approximately \$37.8 million in the secured category. As of December 31, 2007, we had 18 individual borrowers with a loan principal balance of more than \$10.0 million per borrower and another 30 individual borrowers with a loan principal balance of more than \$5.0 million per borrower. Given the size of these current outstanding loans relative to our capital levels and earnings, a significant loss on any one of these credits could materially and adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

A significant portion of our leases are secured by automobiles, and the loss of purchasers for our leases or a downturn in automobile purchases could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

A significant portion of our leases are secured by automobiles. As of December 31, 2007, the total amount of automobile leases was \$379.2 million or 98.39% of our total leasing portfolio. We sometimes sell our leases to other financial institutions in order to manage our lease financing concentration. The loss of purchasers of our leases could cause us to reduce our lease originations, reducing our net income. Alternatively, we may increase the portion of the leases that we retain for our portfolio with the result that our exposure to automobile leases will increase. In addition, a downturn in automobile purchases could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

We rely heavily on short-term funding sources to meet our liquidity needs, such as broker deposits and repurchase obligations, which are generally more sensitive to changes in interest rates and can be adversely affected by local and general economic conditions.

We have frequently utilized as a source of funds certificates of deposit obtained through deposit brokers that solicit funds from their customers for deposit with us, or broker deposits. Broker deposits, when compared to retail deposits attracted through a branch network, are generally more sensitive to changes in interest rates and volatility in the capital markets and could reduce our net interest spread and net interest margin. In addition, broker deposit funding sources may be more sensitive to significant changes in our financial condition. As of December 31, 2007, broker deposits amounted to \$1.3 billion, or approximately 67.06% of our total deposits, compared to broker deposits in the amount of \$1.2 billion and \$967.2 million, or approximately 64.35% and 55.77% of our total deposits, for the years 2006 and 2005, respectively. As of December 31, 2007, approximately \$658.9 million in broker deposits, or approximately 49.30% of our total broker deposits, mature within one year. Our ability to continue to acquire broker deposits is subject to our ability to price these deposits at competitive levels, which may substantially increase our funding costs, and the confidence of the market. In addition, if our capital ratios fall below the levels necessary to be considered "well-capitalized" under current regulatory guidelines, we could be restricted in using broker deposits as a short-term funding source.

We also have borrowings in the form of repurchase obligations with the Federal Home Loan Bank, or the FHLB, and other broker-dealers. These agreements are collateralized by some of our investment securities. As of December 31, 2007, our repurchase obligations totaled \$496.4 million, of which \$217.2 million, or approximately 43.76% of the total repurchase obligations, mature within one year. If we are unable to borrow in the form of repurchase obligations, we may be required to seek higher cost funding sources, which could materially and adversely affect our net interest income.

We have experienced rapid growth in recent years, and we may be unable to successfully continue to implement our growth strategy, which may adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Our assets have grown rapidly in recent years. With the ultimate goal of increasing net income, we have grown our assets from \$1.3 billion as of December 31, 2003 to \$2.8 billion as of December 31, 2007. The types of assets on our balance sheet that have experienced the largest categorical increases are commercial loans and lease financings. We have funded this growth, in part, with broker deposits, FHLB advances, and other borrowings. These types of funds are generally more costly and volatile than traditional retail deposits.

We may not be able to sustain our current growth rate. Throughout our expansion, we have been successful in attracting new customers, expanding new services to existing customers, adding new business lines, engaging in acquisitions and increasing our deposit base. We cannot assure you that we will be able to continue this trend, and it will become more difficult to maintain sustained growth as we increase in size. Our ability to implement our strategy for continued growth depends on our ability to attract and retain customers in a highly competitive market, on the growth of those customers' businesses, on entering and expanding in lines of business in which we do not have significant past experience or for which we have only recently added personnel with the requisite experience, on our ability to continue to identify new acquisition targets and on our ability to increase our deposit base. Many of these growth prerequisites may be affected by circumstances that are beyond our control. Our inability to meet any of these growth prerequisites could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

We rely heavily on our management team and the unexpected loss of key officers could adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Our success has been and will continue to be greatly influenced by our ability to retain the services of existing senior management and, as we expand, to attract and retain qualified additional senior and middle management. Rafael Arrillaga-Torréns, Jr., our President and Chief Executive Officer, has been instrumental in managing our business affairs. Our other senior executive officers have had, and will continue to have, a significant role in the development and management of our business. The loss of the services of any of our senior executive officers could have an adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects. We have not established a detailed management succession plan. Accordingly, should we lose the services of any of our senior executive officers, our Board of Directors may have to search outside of EuroBancshares for a qualified permanent replacement. This search may be prolonged and we cannot assure you that we will be able to locate and hire a qualified replacement. We do not maintain key man life insurance policies on any of our senior executive officers. We currently do not have any employment agreements with our senior executive officers, with the exception of a Change in Control Agreement with Rafael Arrillaga-Torréns, Jr., our Chairman of the Board, President and Chief Executive Officer, and Yadira R. Mercado, our Executive Vice President and Chief Financial Officer. If any of our senior executive officers leaves his or her respective position, our business, financial condition, results of operations, cash flows and/or future prospects may suffer.

The regulatory capital treatment of our junior subordinated debentures and related trust preferred securities is uncertain.

Financial holding companies with more than \$500 million in assets, like us, must maintain minimum capital ratios. In particular, we must maintain a leverage ratio of Tier 1 capital to average assets of 5.0%; a Tier 1 risk-based capital ratio of 6.0% of risk-weighted assets; and a total risk-based capital ratio (Tier 1 and Tier 2 capital) of 10.0% of risk-weighted assets to be considered "well-capitalized" for regulatory purposes. The Federal Reserve Board's current rules regarding the capital treatment of trust preferred securities allow us to count trust preferred securities as Tier 1 capital up to 25.0% of our total Tier 1 capital for regulatory purposes. The remaining portion counts as Tier 2 capital.

On March 1, 2005, the Federal Reserve Board adopted the final rule that allows the continued limited inclusion of trust preferred securities in the Tier 1 capital of bank holding companies (BHCs). Under the final rule, trust preferred securities and other restricted core capital elements would be subject to stricter quantitative limits. The Federal Reserve Board's final rule limits restricted core capital elements to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits. As of December 31, 2007, we had \$20.0 million in trust preferred securities of which all counted as Tier 1 capital.

A determination by the Federal Reserve Board not to continue to allow the inclusion of our junior subordinated debentures or the trust preferred securities in Tier 1 capital, or otherwise limiting the inclusion of such debentures or securities in Tier 1 capital, could have a material and adverse impact on our regulatory capital levels and cause our capital ratios to fall below the levels necessary to be considered "well-capitalized" under current regulatory guidelines. This could impact our ability to grow our assets. In addition, inadequate regulatory capital levels may result in the imposition of certain operating restrictions on us and Eurobank, including restrictions in using broker deposits as a short-term funding source.

Eurobank entered into a Cease and Desist Order with the FDIC regarding its compliance with anti-money laundering laws and the Bank Secrecy Act.

On March 13, 2007, the Board of Directors of Eurobank (the "Bank"), the wholly-owned banking subsidiary of EuroBancshares, consented to the issuance of a Cease and Desist Order by the Federal Deposit Insurance Corporation based upon the findings of the FDIC and the Commonwealth of Puerto Rico Office of the Commissioner of Financial Institutions relating to deficiencies in the Bank's Bank Secrecy Act/Anti-Money Laundering Compliance Program. Under the terms of the FDIC order, the Bank is required to make specific improvements to its anti-money laundering and BSA compliance activities. While Eurobank believes that it will be able to implement effective compliance procedures necessary to remediate the deficiencies identified in the FDIC order, in the event that Eurobank is unable to satisfy the requirements imposed by the FDIC order, Eurobank may become subject to monetary fines and penalties as well as additional restrictions on its banking operations, which could affect its ability to execute certain aspects of its business plan. Such measures could materially and adversely affect its business, financial condition, results of operations, cash flows and/or future prospects.

Risks Relating to an Investment in Our Common Stock

Our common stock has a short trading history and you may not be able to trade our common stock if an active trading market does not prevail. Additionally, the price of our common stock may fluctuate significantly.

The market price of our common stock may be subject to significant fluctuation in response to numerous factors, including variations in our annual or quarterly financial results or those of our competitors, changes by financial research analysts in their evaluation of our financial results or those of our competitors, or our failure or that of our competitors to meet such estimates, conditions in the economy in general or the banking industry in particular, or unfavorable publicity affecting us or the banking industry. In addition, the equity markets have, on occasion, experienced significant price and volume fluctuations that have affected the market prices for many companies' securities and have been unrelated to the operating performance of those companies. In addition, the sale by any of our large stockholders of a significant portion of that stockholder's holdings could have a material adverse effect on the market price of our common stock. Further, the registration of any significant amount of additional shares of our common stock will have the immediate effect of increasing the public float of our common stock and any such increase may cause the market price of our common stock to decline or fluctuate significantly. Any such fluctuations may adversely affect the prevailing market price of the common stock.

Our executive officers and directors own a significant number of shares of our common stock, allowing management significant control over our corporate affairs.

As of December 31, 2007, our executive officers and directors beneficially own 50.29% of the outstanding shares of our common stock. Accordingly, these executive officers and directors will be able to control, to a significant extent, the outcome of all matters required to be submitted to our stockholders for approval, including decisions relating to the election of directors, the determination of our day-to-day corporate and management policies and other significant corporate transactions.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. First, we have adopted a stock option plan that provides for the granting of stock options to our directors, executive officers and other employees. As of December 31, 2007, 998,570 shares of our common stock were issuable under options granted in connection with our stock option plans. In addition, 400,130 shares of our common stock are reserved for future issuance to directors, officers and employees under our stock option plan. It is probable that the stock options will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option. If the stock options are exercised, your share ownership will be diluted.

In addition, our amended and restated certificate of incorporation authorizes the issuance of up to 150,000,000 shares of common stock, but does not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in EuroBancshares.

Future sales of common stock by existing stockholders may have an adverse impact on the market price of our common stock.

Sales of a substantial number of shares of our common stock in the public market, or the perception that large sales could occur, could cause the market price of our common stock to decline or limit our future ability to raise capital through an offering of equity securities. As of December 31, 2007, there were 19,093,315 shares of our common stock outstanding, which are freely tradable without restriction or further registration under the federal securities laws unless purchased or sold by our "affiliates" within the meaning of Rule 144 under the Securities Act.

Holders of our junior subordinated debentures have rights that are senior to those of our stockholders.

On December 19, 2002, we issued \$20.6 million of floating rate junior subordinated interest debentures in connection with a \$20.0 million trust preferred securities issuance by our subsidiary, Eurobank Statutory Trust II. The 2002 junior subordinated debentures mature in 2032. The purpose of this transaction was to raise additional capital to fund our continued growth.

Payments of the principal and interest on the trust preferred securities of Eurobank Statutory Trust II are conditionally guaranteed by us. The 2002 junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the 2002 junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock.

Holders of our Series A Preferred Stock have rights senior to those of our common stockholders.

In connection with our acquisition of BankTrust, we issued 430,537 shares in the amount of \$10.8 million of our Series A Preferred Stock to certain stockholders of BankTrust in exchange for their shares of the Series A and Series B preferred stock of BankTrust. Our Series A Preferred Stock has rights and preferences that could adversely affect holders of our common stock. For example, we generally are unable to declare and pay dividends on our common stock if there are any accrued and unpaid dividends on our Series A Preferred Stock for the preceding twelve months. Additionally, upon any voluntary or involuntary liquidation, dissolution, or winding up of our business, the holders of our Series A Preferred Stock are entitled to receive distributions out of our available assets before any distributions can be made to holders of our common stock.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws could delay or prevent a takeover of us by a third party.

Our amended and restated certificate of incorporation and amended and restated bylaws could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or could otherwise adversely affect the price of our common stock. For example, our bylaws contain advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings. We also have a staggered board of directors, which means that only one-third of our Board of Directors can be replaced by stockholders at any annual meeting.

We currently do not intend to pay dividends on our common stock. In addition, our future ability to pay dividends is subject to restrictions. As a result, capital appreciation, if any, of our common stock will be your sole source of gains for the foreseeable future.

We have not historically and we currently do not intend to pay any dividends on our common stock. In addition, since we are a financial holding company with no significant assets other than Eurobank, we have no material source of income other than dividends that we receive from Eurobank. Therefore, our ability to pay dividends to our stockholders will depend on Eurobank's ability to pay dividends to us. Moreover, banks and bank holding companies are both subject to federal and Puerto Rico regulatory restrictions on the payment of cash dividends. We intend to retain the earnings of Eurobank to support growth and build equity capital. Accordingly, you should not expect to receive dividends from us in the foreseeable future.

We are also restricted from paying dividends on our common stock if we have deferred payments of the interest on, or an event of default has occurred with respect to, our junior subordinated debentures. In addition, we

generally are unable to declare and pay dividends on our common stock if there are any accrued and unpaid dividends on our Series A Preferred Stock for the preceding 12 months.

Your shares are not an insured deposit.

Your investment in our common stock will not be a bank deposit and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

Risks Relating to the Economic Environment

The ongoing economic crisis in Puerto Rico could adversely affect our business, financial condition, results of operations, cash flows and/or future prospects.

Between May 1 and May 17, 2006, Puerto Rico experienced a partial government shutdown caused by the inability of the Legislature and Governor to agree on a budget, which resulted in an estimated \$740 million budget shortfall. This government shutdown forced the closure of approximately 43 public agencies, including Puerto Rico's public schools, leaving an estimated 90,000 government employees out of work. In response to this economic crisis, several bills were approved by the Puerto Rico legislature to impose additional taxes, some of which were applicable to the banking industry, resulting in an increase in our effective tax rate. For more information relating to additional taxes imposed to the banking industry, see the section captioned "Provision for Income Taxes" in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

In July 4, 2006, the Commonwealth of Puerto Rico enacted legislation authorizing a new sales and use tax of up to 7%. The new sales and use tax is comprised of a 1.5% municipal tax, which some municipalities started collecting after the approval of this law, and a 5.5% central government sales and use tax that became effective as of November 15, 2006. This legislation also abrogated the general excise tax on most imported and manufactured goods.

In addition, the legislation mandates the establishment of measures to limit spending. These measures include a significant reduction in debt service due to the 1% of sales tax designated for debt service and restructuring of debt transactions, as well as a millionaire reduction in non-debt service expenses by planned savings in the health and education areas.

For the fiscal year ended June 30, 2007, the Puerto Rico Planning Board registered a contraction of 1.4 % and estimates an additional decline of 1.8% for fiscal year ending June 30, 2008.

Certain sectors believe the revenue yield of the sales tax could be lower than previously expected because of tax exemptions included in the law. Also, these sectors believe the government's plan to reduce expenditures heavily depends on debt restructuring and health and education cuts, which could be in an early phase of development.

A period of reduced economic growth or recession, such as this, has had an adverse effect on the quality of our loan and corporate bond portfolios. During an economic downturn, affected borrowers may, among other things, be less likely to repay interest and principal on their loans or bonds as scheduled. Moreover, the value of real estate or other collateral that secures the loans and bonds could be adversely affected by an economic downturn. This would cause the number of foreclosures to increase and, therefore, decrease our ability to recover losses on such properties and assets.

If the economic slowdown persists, those adverse effects may continue and could result in increased delinquency rates in the short-term until the economy regains a more sustainable growth.

Risks Related to United States Taxation

If we or any of our subsidiaries are determined to be a passive foreign investment company, U.S. holders of our stock could be subject to adverse tax consequences.

If we or any of our subsidiaries are determined to be a passive foreign investment company, known as a "PFIC", U.S. holders could be subject to adverse United States federal income tax consequences. Specifically, if

either we or any of our subsidiaries are determined to be a PFIC for any taxable year, each U.S. holder would generally be subject to taxation under special rules, regardless of whether we or any of our subsidiaries remains a PFIC, with respect to (1) any "excess distribution" made by us to the U.S. holders during that taxable year, and (2) any gain realized on the sale, pledge or other disposition during that taxable year of our common stock or the stock of the subsidiary that was determined to be a PFIC. These rules could, in addition to other consequences, cause certain income otherwise classified as capital gain to be taxed at ordinary income rates or the highest rate of tax for ordinary income in the year to which it is allocated regardless of the U.S. holder's particular tax situation and cause the U.S. holder to be subject to an interest charge on the deemed deferred amount at the underpayment rate. "Excess distributions" generally are any distributions received by the U.S. holder on the common stock in a taxable year that exceed 125% of the average annual distributions received by the U.S. holder in the three preceding taxable years, or the U.S. holder's holding period for the common stock, if shorter. We believe that neither we nor any of our subsidiaries will be determined to be a PFIC in our current taxable year, and we expect to continue to conduct our affairs in a manner so that neither we nor any of our subsidiaries qualifies as a PFIC in the foreseeable future. However, we have not requested or received an opinion from our United States tax counsel as to whether we will be determined to be a PFIC in our current taxable year and we can give no assurance in this regard.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our principal offices, including the principal offices of the Bank, are located in our main office building at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, in San Juan, Puerto Rico.

On February 6, 2007, Eurobank, our wholly-owned banking subsidiary, closed on the purchase of land and an office building to serve as our new headquarters. The property includes a 57,187 square foot office building that consolidates our headquarters, administrative operations, and our leasing division. The purchase price for the property was \$12,360,000. By December 2007, we had completed moving our headquarters, our leasing division, and almost all administrative departments to the new building. As of December 31, 2007, office building improvements amounted to \$2.9 million.

Currently, in addition to the main office, we operate at 31 locations. The following is a list of our operating locations:

<u>Location⁽¹⁾</u>	<u>Lease Expiration Date⁽²⁾</u>	<u>Owned or Leased</u>
Main Office: State Road PR-1, Km. 24.5..... Quebrada Arenas Ward San Juan, Puerto Rico 00926	N/A	Owned ⁽³⁾
Departments Trust and Wealth Management: Mezzanine..... 270 Muñoz Rivera Avenue San Juan, Puerto Rico 00918	N/A	Owned ⁽⁴⁾
EuroMortgage: State Road #190..... Lot #1, Km. 0.7 La Cerámica Industrial Park Carolina, Puerto Rico 00983	6/30/2007 ⁽⁵⁾	Leased ⁽⁶⁾
Proof & Transit and Checking Accounts: Old Corona Building Building #5, Second Floor Local #3 Santurce, Puerto Rico 00907	8/31/2007 ⁽⁵⁾	Leased

<u>Location⁽¹⁾</u>	<u>Lease Expiration Date⁽²⁾</u>	<u>Owned or Leased</u>
Mortgage Center: Urb. Villa del Rey #33..... Pino 2 nd Caguas, Puerto Rico 00725	7/31/2008	Leased
<i>Branches</i>		
Aguadilla Branch..... State Road No. PR2, Km. 129.3 Aguadilla, Puerto Rico 00603	10/31/2006 ⁽⁷⁾	Leased
Bayamón Branch..... Comerio Avenue, corner of Sierra Bayamón Bayamón, Puerto Rico 00961	9/30/2017	Leased
Cabo Rojo Branch..... State Road #100, Km. 5.5 Cabo Rojo, Puerto Rico 00623	6/1/2027	Leased
Caguas I Branch..... A-1 Muñoz Rivera Avenue Caguas, Puerto Rico 00725	5/31/2007 ⁽⁵⁾	Leased
Caguas II Branch..... 32 Acosta Street, corner of Ruiz Belvis Caguas, Puerto Rico 00725	6/30/2010	Leased
Canóvanas Branch..... Marginal PR-3, Km. 20.3 Canóvanas, Puerto Rico 00729	6/30/2025	Leased
Carolina Branch..... State Road #190 Lot #1, Km. 0.7 La Cerámica Industrial Park Carolina, Puerto Rico 00983	9/30/2007 ⁽⁵⁾	Leased ⁽⁶⁾
Cayey Branch..... State Road #1, Km. 56.2 Montellano Ward Cayey, Puerto Rico 00736	2/28/2029	Leased
Cidra Branch..... Luis Muñoz Rivera Street corner of José de Diego Cidra, Puerto Rico 00739	4/30/2006 ⁽⁵⁾	Leased
Condado Branch..... 1408 Magdalena Avenue Santurce, Puerto Rico 00907	6/30/2021	Leased
Eurobank Plaza..... State Road PR-1, Km. 24.5 Quebrada Arenas Ward San Juan, Puerto Rico 00926	N/A	Owned ⁽³⁾
Fajardo Branch..... State Road #3, Km. 4.5, Ramal 195 Fajardo, Puerto Rico 00738	12/31/2026	Leased

<u>Location⁽¹⁾</u>	<u>Lease Expiration Date⁽²⁾</u>	<u>Owned or Leased</u>
Hatillo Branch State Road No. PR2, Km. 87.0 Hatillo, Puerto Rico 00659	11/30/2032	Leased
Hato Rey Branch 270 Muñoz Rivera Avenue San Juan, Puerto Rico 00918	N/A	Owned ⁽⁴⁾
Humacao Branch Plaza Mall Lot #3, State Road No. PR52 Corner State Road No. PR3 Humacao, Puerto Rico 00791	5/31/2026	Leased
Manatí Branch State Road No. PR2, Km. 49.5 Manatí, Puerto Rico 00674	8/31/2011	Leased
Ponce Salud Branch Thamar Building, Salud Street #32 Ponce, Puerto Rico 00731	5/1/2010	Leased
Ponce Hostos Branch 26 Hostos Avenue Ponce, Puerto Rico 00731	10/31/2008	Leased
Ponce Morell Campos Branch State Road #10, Km. 1.5 Ponce, Puerto Rico 00731	3/30/2011	Leased
Ponce Marvesa Branch State Road 14 Km. 3.4 Machuelo Ward Ponce, Puerto Rico 00731	12/31/2025	Leased
Puerto Nuevo Branch 1302 Jesús T. Piñero Corner de Diego Avenue San Juan, Puerto Rico 00921	12/31/2011	Leased
San Francisco Branch Villas de San Francisco Shopping Center 85 de Diego Avenue Río Piedras, Puerto Rico 00927	4/30/2011	Leased
San Lorenzo Branch 155 South Luis Muñoz Rivera Street San Lorenzo, Puerto Rico 00754	8/01/2008	Leased
San Patricio Branch San Patricio Office Center 8 Tabonuco Street Guaynabo, Puerto Rico 00969	4/30/2014	Leased
Villa Palmera Branch Eduardo Conde Avenue corner of Tapia Street Santurce, Puerto Rico 00915	12/31/2008	Leased
Mayagüez Branch State Road No. PR2, Km. 153.2 Mayagüez, Puerto Rico 00681	11/30/2025	Leased

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- (1) As of December 31, 2007, Eurobank had two real estate properties for future branch development, of which one was leased from one of our directors; and other two land lots for future expansion of our headquarters.
 - (2) Most of these leases have options for extensions. In addition, several have early termination clauses.
 - (3) The property owned by EuroBancshares located at State Road PR-1, Km. 24.5, in San Juan, includes a 57,187 square foot office building that consolidates our headquarters, administrative operations, and our leasing division.
 - (4) The property owned by EuroBancshares located at 270 Muñoz Rivera Avenue is part of a 180,000 square foot commercial office building. EuroBancshares owns a portion of the lobby area on the ground floor where it operates a branch, the mezzanine where it operates its trust business, and also owns the first floor of this office building, which is currently vacant. Until December 2007, our headquarters, as well as other administrative departments, were located on the first floor of this office building.
 - (5) The lease for these locations is expired, but Eurobank continues to pay rent to the lessor on a month-to-month basis. Eurobank believes that the lessor will not require Eurobank to vacate the premises in the immediate future.
 - (6) These properties are leased from one of our directors.
 - (7) The Aguadilla Branch is currently under construction. Once the construction is finished, the lease term will be twenty years with an option to extend the contract for two additional terms of five years each. We started operating the branch in a trailer until construction is finished.

ITEM 3. Legal Proceedings.

From time to time, we and our subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on our financial position or results of operation.

ITEM 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock trades and is listed on the NASDAQ Global Select Market under the symbol "EUBK". As of February 29, 2008, there were 20,082,398 shares issued and 19,143,315 shares outstanding held by 333 stockholders of record, including all directors and officers of EuroBancshares, Inc., and excluding beneficial owners whose shares are held in "street" name by securities broker-dealers or other nominees. The number of beneficial owners is unknown to us at this time.

The following table presents the high and low sales prices for our common stock reported on the NASDAQ Global Select Market for the last two fiscal years:

Quarter Ended	High	Low
March 31, 2006	\$15.13	\$11.64
June 30, 2006	12.00	8.35
September 30, 2006	9.90	8.47
December 31, 2006	9.47	8.50
March 31, 2007	9.06	8.41
June 30, 2007	9.23	8.50
September 30, 2007	9.07	7.70
December 31, 2007	8.06	3.61

Dividends

We have not paid cash dividends historically, nor do we anticipate paying any cash dividends on our common stock in the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be used for working capital, to support our operations and to finance the growth and development of our business. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects and other factors that our Board of Directors may deem relevant.

As a holding company, we ultimately depend on Eurobank to provide funding for our noninterest expenses and dividends. Various banking laws applicable to Eurobank limit the payment of dividends, management fees and other distributions by Eurobank to us, and may therefore limit our ability to pay dividends on our common stock. We are also restricted from paying dividends on our common stock if we have deferred payments of the interest, or if an event of default has occurred, on our junior subordinated debentures. In addition, we generally are unable to declare and pay dividends on our common stock if there are any accrued and unpaid dividends on our Series A Preferred Stock for the preceding 12 months. For additional information, see the sections of this report captioned *"Supervision and Regulation — EuroBancshares — Regulatory Restrictions on Dividends; Source of Strength"* and *"Supervision and Regulation — Eurobank — Dividends."*

Securities Authorized for Issuance Under Equity Compensation Plans

Under the 2005 Stock Option Plan, approved at the 2005 annual meeting held at the main office of EuroBancshares on May 12, 2005, 700,000 shares of our common stock were reserved for issuance pursuant to the exercise of stock options granted under the plan. As of December 31, 2007, 299,870 options to acquire shares of our common stock have been granted under the 2005 Stock Option Plan. Since the 2005 Stock Options Plan was approved, no further options were permitted to be issued under the 2002 Stock Option Plan.

The following table presents information regarding our equity compensation plans at December 31, 2007:

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
2002 Stock Option Plan	718,600	\$7.95	—
2005 Stock Option Plan	279,970	8.19	400,130

ITEM 6. Selected Financial Data.

We derived our selected consolidated financial data as of and for each of the years in the five year period ended December 31, 2007 from our audited consolidated financial statements and the notes thereto.

You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the related notes included elsewhere in this Annual Report. Results from past periods are not necessarily indicative of results that may be expected for any future period. Average balances have been computed using daily averages.

	As of or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Total interest income	\$ 173,325	\$ 162,146	\$ 133,233	\$ 95,394	\$ 64,949
Total interest expense	105,470	95,363	64,936	41,481	31,922
Net interest income	67,855	66,783	68,297	53,913	33,027
Provision for loan and lease losses	25,348	16,903	12,775	7,100	6,451
Net interest income after provision for loan and lease losses	42,507	49,880	55,522	46,813	26,576
Noninterest income:					
Service charges and other fees	9,585	8,476	9,069	8,057	5,456
Net loss on non-hedging derivatives	—	—	(944)	—	—
Gain on sale of loans and leases, net	380	401	945	1,395	3,547
(Loss) gain on sale of securities, net	—	(1,092)	(301)	—	707
(Loss) gain on sale of other real estate owned and repossessed assets, net.....	(1,286)	16	(1,040)	(359)	(663)
Total noninterest income	8,678	7,801	7,729	9,093	9,047
Noninterest expense:					
Salaries and benefits.....	19,890	17,507	14,727	11,111	8,867
Professional fees	4,496	4,104	3,912	2,196	1,402
Other noninterest expense	23,839	21,775	19,005	15,635	12,039
Total noninterest expense	48,225	43,386	37,644	28,942	22,308
Income before income taxes and extraordinary gain	—	14,295	25,607	26,964	13,315
Income tax (benefit) / expense.....	(249)	6,283	9,077	8,663	3,432
Extraordinary gain ⁽¹⁾	—	—	—	4,419	—
Net income.....	\$ 3,209	\$ 8,012	\$ 16,530	\$ 22,720	\$ 9,883
Common Share Data:					
Earnings per common share — basic:					
Income before extraordinary gain	\$ 0.13	\$ 0.38	\$ 0.81	\$ 1.08	\$ 0.71
Extraordinary gain	—	—	—	0.27	—
Net income	0.13	0.38	0.81	1.35	0.71
Earnings per common share — diluted:					
Income before extraordinary gain	0.13	0.37	0.78	1.04	0.69
Extraordinary gain.....	—	—	—	0.26	—
Net income	0.13	0.37	0.78	1.30	0.69
Cash dividends declared	—	—	—	—	—
Book value per common share.....	8.86	8.32	7.95	7.54	4.67
Common shares outstanding at end of period	19,093,315	19,123,821	19,398,848	19,564,086	13,947,396
Average diluted shares outstanding	19,391,638	19,657,559	20,277,799	17,152,261	14,234,168
Balance Sheet Data (at end of period):					
Total assets	\$ 2,751,399	\$ 2,500,920	\$ 2,391,283	\$ 2,102,789	\$ 1,320,934
Investment securities available-for-sale.....	707,103	535,159	627,080	555,482	324,938
Investment securities held-to-maturity.....	30,845	38,433	42,471	49,504	—
Total loans and leases, net of unearned.....	1,857,219	1,750,838	1,577,196	1,387,613	899,392
Allowance for loan and lease losses	28,137	18,937	18,188	19,039	9,394
Deposits	1,993,046	1,905,356	1,734,128	1,409,036	984,549
Other borrowings	547,492	394,991	475,712	520,206	264,616
Total stockholders' equity	179,918	169,878	164,967	158,302	65,075

As of or for the Year Ended December 31,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(Dollars in thousands, except per share data)				
Performance Ratios:					
Return on average common stockholders' equity ⁽²⁾	1.96%	5.19%	10.70%	18.67%	16.50%
Return on average assets ⁽³⁾	0.13	0.33	0.74	1.03	0.87
Net interest margin ⁽⁴⁾	2.80	2.86	3.29	3.29	3.15
Efficiency ratio ⁽⁵⁾	63.48	57.89	47.84	44.44	51.48
Loans and leases to deposits.....	93.25	91.89	90.95	98.48	91.35
Asset Quality Data:					
Nonperforming loans and leases.....	\$ 98,065	\$ 49,978	\$ 36,263	\$ 40,533	\$ 26,758
Other real estate owned and repossessed assets.....	13,534	13,048	9,517	6,441	6,417
Total nonperforming assets.....	111,599	63,026	45,780	46,974	33,175
Nonperforming assets to total assets.....	4.06%	2.52%	1.91%	2.23%	2.51%
Nonperforming loans to total loans and leases.....	5.28	2.85	2.30	2.92	2.98
Allowance for loan and lease losses to nonperforming loans.....	28.69	37.89	50.16	46.97	35.11
Allowance for loan and lease losses to total loans.....	1.51	1.08	1.15	1.37	1.04
Net charge-offs to average loans.....	0.90	0.97	0.92	0.69	0.47
Capital Ratios:					
Leverage ratio.....	7.55%	7.92%	9.35%	9.91%	6.76%
Tier 1 risk-based capital.....	9.54	10.25	12.45	12.73	8.30
Total risk-based capital.....	10.79	11.25	13.49	13.94	11.60
Tangible common equity to tangible assets.....	6.15	6.44	6.91	7.54	4.93

- (1) Extraordinary gain resulting from the negative goodwill on the acquisition of BankTrust in 2004. The excess of the fair value of the assets acquired over the purchase price resulted in a negative goodwill of \$5.7 million. The negative goodwill of BankTrust was allocated between a \$4.4 million extraordinary gain, \$670,000 of the fair value of intangible assets, net of their tax effect, and the \$627,000 of the fair value of the acquired furniture, fixtures and equipment.
- (2) Return on average common equity is determined by dividing net income before extraordinary gain by average common equity.
- (3) Return on average assets is determined by dividing net income before extraordinary gain by average assets.
- (4) Net interest margin is determined by dividing net interest income (fully taxable equivalent) by average interest-earning assets.
- (5) The efficiency ratio is determined by dividing total noninterest expense by an amount equal to net interest income (fully taxable equivalent) plus noninterest income.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2007, 2006 and 2005. This discussion should be read together with the "Selected Consolidated Financial Data," our consolidated financial statements and the notes related thereto which appear elsewhere in this Annual Report on Form 10-K.

Executive Overview

Introduction

We are a diversified financial holding company headquartered in San Juan, Puerto Rico, offering a broad array of financial services through our wholly owned banking subsidiary, Eurobank, and our wholly owned insurance agency subsidiary, EuroSeguros. As of December 31, 2007, we had, on a consolidated basis, total assets of \$2.8 billion, net loans and leases of \$1.8 billion, investment securities of \$751.3 million, total deposits of \$2.0

billion, and stockholders' equity of \$179.9 million. We currently operate through a network of 26 branch offices located throughout Puerto Rico.

Over the past three years, we have experienced significant balance sheet growth. Our management team has implemented a strategy of building our core banking franchise by focusing on commercial loans, business transaction accounts, our mortgage business and acquisitions. We believe that this strategy will increase recurring revenue streams, enhance profitability, broaden our product and service offerings and continue to build stockholder value.

2007 Key Performance Indicators

We believe the following were key indicators of our performance and results of operations in 2007:

- our total assets grew to \$2.751 billion at the end of 2007, representing an increase of 10.02%, from \$2.501 billion at the end of 2006;
- our net loans and leases grew to \$1.830 billion at the end of 2007, representing an increase of 5.69%, from \$1.732 billion at the end of 2006;
- our investment securities grew to \$751.3 million at the end of 2007, representing an increase of 30.00%, from \$577.9 million at the end of 2006;
- our total deposits grew to \$1.993 billion at the end of 2007, representing an increase of 4.60%, from \$1.905 billion at the end of 2006;
- our nonperforming assets increased to \$111.6 million, or by 77.07%, in 2007, from \$63.0 million at the end of 2006;
- our total revenue grew to \$182.0 million in 2007, representing an increase of 7.09%, from \$169.9 million in 2006;
- our net interest margin and spread on a fully taxable equivalent basis was 2.80% and 2.29% in 2007, respectively, compared to 2.86% and 2.33% in 2006;
- our provision for loan and lease losses grew to \$25.3 million in 2007, representing an increase of 49.96%, from \$16.9 million in 2006;
- our total noninterest expense grew to \$48.2 million in 2007, representing an increase of 11.15%, from \$43.4 million in 2006; and
- for 2007, we recorded a tax benefit of \$249,000, compared to an income tax expense of \$6.3 million for 2006.

These items, as well as other factors, resulted in a net income for 2007 of \$3.2 million, compared to \$8.0 million in 2006, or \$0.13 per common share for 2007, compared to \$0.37 per common share for 2006, assuming dilution, and are discussed in further detail throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report on Form 10-K.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. The following is a description of our significant accounting policies used in the preparation of the accompanying consolidated financial statements.

Loans and Allowance for Loan and Lease Losses

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances adjusted by any charge-offs, unearned finance charges, allowance for loan and lease losses, and net deferred nonrefundable fees or costs on origination. The allowance for loan and lease losses is an estimate to provide for probable collection losses in our loan and lease portfolio. Losses are charged and recoveries are credited to the allowance account at the time a loss is incurred or a recovery is received. The allowance for loan and lease losses amounted to \$28.1 million, \$18.9 million and \$18.2 million as of December 31, 2007, 2006 and 2005, respectively. Losses charged to the allowance amounted to \$18.3 million, \$18.8 million and \$16.6 million as of December 31, 2007, 2006 and 2005, respectively. Recoveries were credited to the allowance in the amounts of \$2.1 million, \$2.6 million and \$3.0 million for those same periods, respectively.

We follow a consistent procedural discipline and account for loan and lease loss contingencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, and SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosures.

To mitigate any difference between estimates and actual results relative to the determination of the allowance for loan and lease losses, our loan review department is specifically charged with reviewing monthly delinquency reports to determine if additional allowances are necessary. Delinquency reports and analysis of the allowance for loan and lease losses are also provided to senior management and the Board of Directors on a monthly basis.

The loan review department evaluates significant changes in delinquency with regard to a particular loan portfolio to determine the potential for continuing trends, and loss projections are estimated and adjustments are made to the historical loss factor applied to that portfolio in connection with the calculation of loss allowances.

Portfolio performance is also monitored through the monthly calculation of the percentage of non-performing loans to the total portfolio outstanding. A significant change in this percentage may trigger a review of the portfolio and eventually lead to additional allowances. We also track the ratio of net charge-offs to total portfolio outstanding.

Our methodology for the determination of the adequacy of the allowance for loan and lease losses for impaired loans is based on classifications of loans and leases into various categories and the application of SFAS No. 114. For non-classified loans, the estimated allowance is based on historical loss experiences, which, at least on an annual basis, are adjusted for changes in trends and conditions. In addition, in evaluating the adequacy of the allowance for loan and lease losses, management also considers the probable effect that current internal and external environmental factors could have on the historical loss factors. While our allowance for loan and lease losses is established in different portfolio components, we maintain an allowance that we believe is sufficient to absorb all credit losses inherent in our portfolio.

With the exception of residential mortgages with a 60% or lower loan-to-value, and the commercial and construction loans pools, loans that are more than 90 days delinquent result in an additional allowance. When commercial and construction loans become 90 days delinquent, or earlier if deemed by management, each is subjected to full review by the loan review officer including, but not limited to, a review of financial statements, repayment ability and collateral held. Depending on the review results, our allowance may be increased. In connection with this review, the loan review officer will determine what economic factors may have led to the change in the client's ability to service the obligation, and this in turn may result in an additional review of a particular sector of the economy. For additional information relating to how each portion of the allowance for loan and lease losses is determined, see the section of this discussion and analysis captioned "*Allowance for Loan and Lease Losses.*"

We believe that our allowance for loan and lease losses is adequate; however, regulatory agencies, including the Commissioner of Financial Institutions of Puerto Rico and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan and lease losses and may from time to time require us to reclassify our loans and leases or make additional provisions to our allowance for loan and lease losses.

Other Real Estate Owned and Repossessed Assets

Other real estate owned, or OREO, and repossessed assets, normally obtained through foreclosure or other workout situations, are initially recorded at the lower of net realizable value or book value at the date of foreclosure, establishing a new cost basis. Any resulting loss is charged to the allowance for loan and lease losses. Appraisals of other real estate properties are made periodically after their acquisition, as necessary. Valuations of repossessed assets are made periodically after their acquisition. For OREO and repossessed assets, a comparison between the appraised value and the carrying value is performed. Additional declines in value after acquisition, if any, are charged to current operations. Other real estate owned amounted to \$8.1 million, \$3.6 million and \$1.5 million as of December 31, 2007, 2006 and 2005, respectively.

Other repossessed assets amounted to \$5.4 million, \$9.4 million and \$8.0 million for those same periods, respectively. Other repossessed assets are mainly comprised of vehicles from our leasing operation. For additional information relating to the composition of other repossessed assets, see the section of this discussion and analysis captioned *"Nonperforming Loans, Leases and Assets."*

We monitor the total loss ratio on sale of repossessed assets, which is determined by dividing the sum of declines in value, repairs and gain or loss on sale by the book value of repossessed assets sold at the time of repossession. Repossessed vehicles amounted to \$4.3 million, \$8.3 million and \$6.2 million for the years ended December 31, 2007, 2006 and 2005, respectively. The total loss ratio on sale of repossessed vehicles was 9.63%, 6.30% and 7.53% for those same years, respectively. The increase in our total loss ratio on the sale of repossessed vehicles during 2007 was directly attributable to our strategy of being more aggressive in the sale of repossessed vehicles in an attempt to expedite the disposition of slow moving inventory. This strategy resulted in an increase of approximately 39.18% in the number of repossessed vehicles in inventory over six months that were sold during 2007, when compared to 2006. During 2007, we sold 405 units in inventory over six months, compared to 291 units in inventory over six months sold during 2006. The decrease in our total loss ratio on the sale of repossessed vehicles during 2006 when compared with 2005 was mainly due to the net effect of: (i) an increase in the sale of damaged units previously adjusted for subsequent declines in value; (ii) the refinements made to our methodology for estimating net realizable value of vehicles upon repossession; and (iii) our decision to increase the valuation of repossessed vehicles, reducing the book value of the repossessed vehicle in an effort to expedite the disposition of slow moving inventory.

For the year ended December 31, 2007, the total gain on sale of repossessed equipment was \$32,000, compared to a total loss of \$413,000 and \$169,000 for the years ended December 31, 2006 and 2005, respectively. Repossessed equipment amounted to \$88,000, \$39,000 and \$210,000 for those same years, respectively. The decrease in the total loss on sale of repossessed equipment for year 2007 was mainly due to a decrease in the amount of repossessed equipment sold during 2007 when compared to 2006, and the fact that, during the fourth quarter of 2007, a specialized equipment was sold resulting in a gain of \$5,000. During 2007, the total amount of repossessed equipment sold decreased by 71.57%, or by \$638,000, to \$253,000, from \$891,000 in 2006. The increase in the total loss on sale of repossessed equipment for year 2006 was mainly due to the sale of damaged equipment previously adjusted for subsequent declines in value as part our strategy to aggressively dispose of deteriorated repossessed equipment.

For the year ended December 31, 2007, the total loss on sale of repossessed boats was \$338,000, compared to \$539,000 and \$419,000 for the years ended December 31, 2006, and 2005, respectively. Total repossessed boats amounted to \$991,000, \$1.1 million and \$1.5 million for those same years, respectively. The boat financing portfolio amounted to \$35.0 million, \$37.4 million and \$39.7 million as of December 31, 2007, 2006 and 2005, respectively. The change in the total loss on sale of repossessed boats during 2007 and 2006 were mainly due to fluctuations in the amount of repossessed boats sold. During 2007, the total of repossessed boats sold decrease by 57.48%, or \$1.5 million, to \$1.1 million, from \$2.6 million in 2006, after increasing by 137.76%, or \$1.5 million, from \$1.1 million in 2005. The decrease in the total loss on sale of repossessed boats during 2006 was mainly due to the sale of five high profile boats, which resulted in lower losses.

In 2007, the total loss on sale of OREO totaled \$153,000 over seven properties sold with an aggregate book value of approximately \$835,000, compared to a total gain on sale of OREO totaled \$454,000 over eleven properties sold with an aggregate book value of approximately \$4.0 million in 2006, and a total loss of \$581,000 over nine properties sold with an aggregate book value of approximately \$3.9 million in 2005. The total gain on sale of OREO in 2006 included a \$362,000 gain from the sale of a real estate property during the second quarter of 2006.

Results of Operations for the Years Ended December 31, 2007, 2006 and 2005

Net Interest Income and Net Interest Margin

Net interest income, our principal source of earnings, is the difference between interest income, principally from loan, lease and investment securities portfolios, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

Net interest income was \$67.9 million during the year ended December 31, 2007, compared to \$66.8 million during the year ended December 31, 2006 and \$68.3 million during the year ended December 31, 2005, representing an increase of \$1.1 million, or 1.60%, in 2007 and a decrease of \$1.5 million, or 2.22%, in 2006. The increase in net interest income during 2007 resulted from the net effect of an increase in average interest earning assets and increased yields from higher interest rates, and an increase in average interest-bearing liabilities and increased cost of funds. The decrease in net interest income during 2006 was primarily due to increased cost of funds. Our net interest margin decreased to 2.80% for the year ended December 31, 2007, from 2.86% and 3.29% for the years ended December 31, 2006 and 2005. Our net interest spread decreased to 2.29% in 2007, from 2.33% in 2006 and 2.88% in 2005. These declines in the net interest margin and spread were primarily caused by the increase in the average cost of interest bearing liabilities as a result of the rising short-term interest rates and the LIBOR inverted curve, which increased at a faster rate than the yield on earning-assets; and to the fact that the increase in average deposits has been comprised substantially of broker deposits, a higher cost category, due to the fierce competitive local environment for core deposits, making broker deposits an attractive funding alternative. In addition, during 2007, our net interest margin and spread were also affected by decreases in the prime rate, primarily during the fourth quarter of 2007. During 2006, our net interest margin and spread were also affected by the write-off of \$626,000 in unamortized placement costs related to the redemption of \$25.8 million of floating rate junior subordinated deferrable interest debentures, as previously mentioned. Without the effect of the write-off of \$626,000 in unamortized placement costs, net interest margin and spread on a fully taxable equivalent basis would have been 2.89% and 2.36% for the year ended December 31, 2006, respectively.

Our average interest-earning assets were \$2.4 billion in 2007, compared to \$2.3 billion in 2006 and \$2.2 billion in 2005, representing increases of 2.25% in 2007 and 8.84% in 2006. Average net loans were \$1.8 billion in 2007, compared to \$1.6 billion in 2006 and \$1.5 billion in 2005, representing increases of 8.34% and 11.79% in 2007 and 2006, respectively. Total interest income increased by 6.89% to \$173.3 million in 2007, compared to \$162.1 million in 2006, after increasing by 21.70% from \$133.2 million in 2005. These increases in our interest income were mainly due to the organic growth of our loan portfolio. The average interest yield we received for interest-earning assets increased to 7.73% in 2007, from 7.53% in 2006, and from 6.69% in 2005. During 2007, the Federal Reserve Board's interest rate cuts negatively impacted average yields on our commercial and construction loans since a significant portion of these portfolios were variable rate loans. As of December 31, 2007, approximately 75.38% of our commercial and construction loans were variable rate loans.

Average interest-bearing liabilities also increased by 2.96% to \$2.2 billion in 2007, compared to \$2.1 billion in 2006, after increasing by 9.69% from \$1.9 billion in 2005. Total interest expense increased by 10.60% to \$105.5 million in 2007, compared to \$95.4 million in 2006, after increasing by 46.86% from \$64.9 million in 2005. During 2007 and 2006, the increase in average liabilities had been substantially in broker deposits, higher rate time deposits driven by the extremely competitive local environment for core deposits, and other borrowings, all of which are higher cost categories resulting in increased interest expense. The average interest rate we paid for interest-bearing liabilities increased to 5.44% in 2007, from 5.20% in 2006, and from 3.81% in 2005.

The following table set forth, for the periods indicated, our average balances of assets, liabilities and stockholders' equity, in addition to the major components of net interest income and our net interest margin. Net loans and leases shown on these tables include nonaccrual loans although interest accrued but not collected on these loans is placed in nonaccrual status and reversed against interest income.

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Average Rate/ Yield ⁽¹⁾	Average Balance	Interest	Average Rate/ Yield ⁽¹⁾	Average Balance	Interest	Average Rate/ Yield ⁽¹⁾
	(Dollars in thousands)								
ASSETS:									
Interest-earning assets:									
Net loans and leases ⁽²⁾	\$1,780,719	\$143,360	8.13%	\$1,643,587	\$130,003	8.00%	\$ 1,470,256	\$ 107,971	7.41%
Securities of U.S. government agencies ⁽³⁾	482,605	22,690	6.53	604,606	27,137	6.45	600,461	21,795	5.14
Other investment securities ⁽³⁾	72,919	3,883	7.40	46,083	2,296	7.03	38,811	1,726	6.12
Puerto Rico government obligations ⁽³⁾ ..	8,149	385	6.57	9,397	412	6.29	8,783	352	5.67
Securities purchased under agreements to resell and federal funds sold	37,826	2,042	6.14	34,841	1,791	5.57	32,297	1,150	4.19
Interest-earning deposits	18,579	964	5.19	9,565	507	5.30	6,767	239	3.53
Total interest-earning assets	\$2,400,797	\$173,324	7.73%	\$2,348,079	\$162,146	7.53%	\$2,157,375	\$ 133,233	6.69%
Total noninterest-earning assets	100,660			80,735			77,612		
TOTAL ASSETS	\$2,501,457			\$2,428,814			\$2,234,987		
LIABILITIES AND STOCKHOLDERS' EQUITY:									
Interest-bearing liabilities:									
Money market deposits	\$18,361	\$ 532	2.91%	\$25,470	\$584	2.31%	\$ 51,787	\$ 1,090	2.13%
NOW deposits	47,068	1,169	2.49	46,330	1,035	2.24	46,421	858	1.85
Savings deposits	141,120	3,497	2.48	184,824	4,386	2.37	254,923	5,861	2.30
Time certificates of deposit in denominations of \$100,000 or more ⁽⁴⁾	1,475,942	75,467	5.52	1,240,403	58,351	5.13	869,054	32,384	3.96
Other time deposits	91,887	4,011	4.37	113,097	4,189	3.71	152,787	4,741	3.11
Other borrowings ⁽⁵⁾	397,515	20,794	6.95	499,275	26,818	7.17	548,141	20,002	4.81
Total interest-bearing liabilities	\$2,171,893	\$105,470	5.44%	\$2,109,399	\$95,363	5.20%	\$ 1,923,113	\$ 64,936	3.81%
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	119,004			128,551			129,676		
Other liabilities	35,735			25,830			16,962		
Total noninterest-bearing liabilities	154,739			154,381			146,638		
STOCKHOLDERS' EQUITY	174,825			165,034			165,236		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,501,457			\$2,428,814			\$2,234,987		
Net interest income ⁽⁶⁾		\$67,854			\$66,783			\$ 68,297	
Net interest spread ⁽⁷⁾			2.29%			2.33%			2.88%
Net interest margin ⁽⁸⁾			2.80%			2.86%			3.29%

(1) Interest yield and expense is calculated on a fully taxable equivalent basis assuming a 39% tax rate for the year ended December 31, 2007, a 43.5% tax rate for 2006, and a 41.5% tax rate for 2005.

(2) The amortization of loan costs (fees) has been included in the calculation of interest income. Net loan costs were approximately \$838,000, \$539,000 and \$780,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Loans includes nonaccrual loans, which balance as of the periods ended December 31, 2007, 2006 and 2005 was \$69.0 million, \$37.3 million and \$27.7 million, respectively, and are net of the allowance for loan and lease losses, deferred fees, unearned income, and related direct costs.

(3) Available-for-sale investments are adjusted for unrealized gain or loss.

(4) For 2007, interest expense on time certificates of deposit in denominations of \$100,000 or more was reduced by approximately \$616,000 of capitalized interest on construction in progress. This capitalized interest was mainly related to the improvements being performed to our new headquarters purchased in February 2007. Without the effect of the capitalized interest of \$616,000, our net interest margin and spread on a fully taxable basis for the year ended December 31, 2007 would have been 2.78% and 2.26%, respectively.

(5) For 2006, interest expense on other borrowings includes the write-off of approximately \$626,000 in unamortized placement costs related to the redemption of \$25.8 million of floating rate junior subordinated deferrable interest debentures on December 18, 2006, as previously mentioned.

(6) Net interest income on a tax equivalent basis was \$67.3 million, \$67.2 million and \$71.0 million for the years ended December 31, 2007, 2006 and 2005, respectively.

- (7) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities on a fully taxable equivalent basis.
- (8) Represents net interest income on a fully taxable equivalent basis as a percentage of average interest-earning assets.

The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities and the amount of change attributable to changes in average daily balances (volume) or changes in average daily interest rates (rate). All changes in interest owed and paid for interest-earning assets and interest-bearing liabilities are attributable to either volume or rate. The impact of changes in the mix of interest-earning assets and interest-bearing liabilities is reflected in our net interest income.

	Year Ended December 31,					
	2007 Over 2006			2006 Over 2005		
	Increases/(Decreases) Due to Change in			Increases/(Decreases) Due to Change in		
	Volume	Rate	Net	Volume	Rate	Net
(In thousands)						
INTEREST EARNED ON:						
Net loans ⁽¹⁾	\$ 10,847	\$ 2,510	\$13,357	\$12,729	\$9,303	\$22,032
Securities of U.S. government agencies.....	(5,476)	1,029	(4,447)	150	5,192	5,342
Other investment securities.....	1,337	250	1,587	323	247	570
Puerto Rico government obligations.....	(55)	28	(27)	25	35	60
Securities purchased under agreements to resell and federal funds sold.....	153	98	251	91	550	641
Interest-earning deposits.....	478	(21)	457	99	169	268
Total interest-earning assets.....	\$7,284	\$ 3,894	\$11,178	\$13,417	\$15,496	\$28,913
INTEREST PAID ON:						
Money market deposits.....	\$ (163)	\$ 111	\$(52)	\$(554)	\$48	\$(506)
NOW deposits.....	16	118	134	(2)	179	177
Savings deposits.....	(1,037)	148	(889)	(1,612)	137	(1,475)
Time certificates of deposit in denominations of \$100,000 or more ⁽²⁾	11,080	6,036	17,116	13,838	12,129	25,967
Other time deposits.....	(786)	608	(178)	(1,232)	680	(552)
Other borrowings ⁽³⁾	(5,466)	(558)	(6,204)	(1,783)	8,599	6,816
Total interest-bearing liabilities.....	\$3,644	\$6,463	\$10,107	\$8,655	\$21,772	\$30,427
Net interest income.....	\$ 3,640	\$ (2,569)	\$1,071	\$4,762	\$(6,276)	\$(1,514)

- (1) The amortization of loan costs (fees) has been included in the calculation of interest income. Net loan costs were approximately \$838,000, \$539,000 and \$780,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Loans includes nonaccrual loans, which balance as of the periods ended December 31, 2007, 2006 and 2005 was \$69.0 million, \$37.3 million and \$27.7 million, respectively, and are net of the allowance for loan and lease losses, deferred fees, unearned income, and related direct costs.
- (2) For 2007, interest expense on time certificates of deposit in denominations of \$100,000 or more was reduced by approximately \$616,000 of capitalized interest on construction in progress. This capitalized interest was mainly related to the improvements being performed to our new headquarters purchased in February 2007.
- (3) For 2006, interest expense on other borrowings includes the write-off of approximately \$626,000 in unamortized placement costs related to the redemption of \$25.8 million of floating rate junior subordinated deferrable interest debentures on December 18, 2006, as previously mentioned.

Provision for Loan and Lease Losses

The provision for loan and lease losses is a direct result of the periodic evaluation of the allowance for possible loan and lease losses, considering the growth in the loan portfolio, net-charge offs, delinquencies, related loss experience, current internal and external environmental factors, and overall economic conditions. We determine a provision for loan and lease losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date. For additional information concerning this determination, please see the section of this discussion and analysis captioned "Allowance for Loan and Lease Losses."

Our provision for loan and lease losses increased to \$25.3 million in 2007, or 141.18% of net charge-offs, from \$16.9 million in 2006, or 104.64% of net charge-offs, and from \$12.8 million in 2005, or 93.75% of net charge-offs. The increase in our provision for loan and lease losses during 2007 when compared to the previous year was mainly caused by: i) three business relationships, which became impaired during the third quarter of 2007 and required a specific allowance of \$4.5 million; ii) the increase in our loan portfolio; and iii) the overall economic conditions. The increase in the provision during 2006 when compared to 2005 resulted from the growth in our commercial and construction loan portfolio, but primarily from the deterioration of our leasing portfolio. Net charge-offs were \$16.1 million in 2007, compared to \$16.2 million in 2006, and to \$13.6 million in 2005. For more detail on net charge-offs, please refer to the "Allowance for Loan and Lease Losses" section herein.

We believe existing allowance levels are appropriate. While our allowance for loan and lease losses is established in different portfolio components, we maintain an allowance that we believe is sufficient to absorb all credit losses inherent in our portfolio. Because we do not have any major industry concentrations, the determination of our provision for loan and lease losses is not impacted by such industry concentrations.

Noninterest Income

The following table set forth the various components of our noninterest income for the periods indicated:

	Year Ended December 31,					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Service charges and other fees	\$9,584	110.4%	\$8,476	108.7%	\$9,069	117.4%
Loss on sale of non-hedging derivatives, net.....	-	-	-	-	(944)	(12.2)
Gain on sale of loans and leases, net.....	380	4.4	401	5.1	945	12.2
Loss on sale of securities, net.....	-	-	(1,092)	(14.0)	(301)	(3.9)
(Loss) gain on sale of other real estate owned, repossessed assets, and on disposition of other assets, net.....	(1,286)	(14.8)	16	0.2	(1,040)	(13.5)
Total noninterest income	\$8,678	100.0%	\$7,801	100.0%	\$7,729	100.0%

Our total noninterest income was \$8.7 million in 2007, compared to \$7.8 million in 2006 and \$7.7 million in 2005, representing an increase of 11.24% in 2007, 0.93% in 2006 and 2005, respectively. Noninterest income represented approximately 0.4%, 0.3% and 0.4% of average assets in 2007, 2006 and 2005, respectively.

Our largest noninterest income source is service charges, primarily on deposit accounts, representing 110.4%, 108.7% and 117.4% of total noninterest income in 2007, 2006 and 2005, respectively. This income source for 2007 amounted to \$9.6 million, compared to \$8.5 million in 2006 and \$9.1 million in 2005. The increase in 2007 was mainly due to an increase in non-sufficient fund charges on deposit accounts, ATM merchant fees, trust fees, other fees on loan accounts, leasing license commissions, and an increase in miscellaneous income mainly related to our credit card operations. The decrease in 2006 was mainly due to a decrease in trust fees and non-sufficient fund charges on deposit accounts.

Another component of noninterest income for 2005 is the net loss on sale of non-hedging derivatives. During year ended December 31, 2005, net noninterest income reflected a \$944,000 net loss on non-hedging derivatives on which hedge accounting had been discontinued. The net loss during 2005 reflected a \$1.1 million charge to earnings in the first quarter of 2005 for net losses on non-hedging derivatives on which hedge accounting had been discontinued and a \$132,000 gain on the termination of such derivatives in the second quarter of 2005. The derivatives were assumed in connection with the acquisition of BankTrust in May 2004.

During 2007, gain on sale of loans and leases amounted to \$380,000, compared to \$401,000 in 2006 and to \$945,000 in 2005. Income from gain on sale of loans and leases as a percentage of total noninterest income was 4.4%, 5.1% and 12.2% in 2007, 2006 and 2005, respectively. This source of noninterest income is derived primarily from the sale of mortgage loans and lease financing contracts. During 2007, we sold \$16.9 million in mortgage loans to other financial institutions, compared to \$13.8 million in 2006 and \$21.5 million in 2005. In addition, during the third quarter 2007, we sold \$298,000 in individual residential construction loans to other financial institution. We did not retain the servicing rights on these loans and we accounted for this transaction as a sale, resulting in a gain of approximately \$380,000, \$401,000 and \$232,000 for those same periods. In June 2006, we became a Government National Mortgage Association issuer. In order to take advantage of this designation, we are increasing our volume of mortgage loans originations and have restructured the mortgage loans department to

increase our sales in the secondary market. During 2007, our mortgage loan portfolio grew by \$31.2 million, or by 40.37%, from \$31.4 million, after increasing by 70.10% from \$44.8 million in 2005.

In addition, in September 2005 and March 2005, we sold lease financing contracts on a limited recourse basis to a third party with carrying values of \$15.0 million and \$14.9 million, respectively. We surrendered control of the lease financing receivables, as defined by SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, and accounted for these transactions as sales, recognizing net gains of approximately \$348,000 for the September 2005 sale and \$365,000 for the March 2005 sale. We did not sell lease financing contracts during 2007 and 2006. We retained servicing responsibilities for the lease financing contracts sold.

During 2006, we recognized a \$1.1 million loss on sale of \$50.1 million in FHLB and mortgage backed securities, compared to a \$301,000 loss on sale of \$85.0 million in U.S. Treasury obligations available for sale in 2005. These investments were sold in an effort to improve the yields of the available for sale securities portfolio. There was no sale of investments in 2007.

Our final component of net noninterest income is the net gain or loss on the sale of other real estate owned, repossessed assets and other assets. During 2007, we experienced a net loss in this component of \$1.3 million, compared to a net gain of \$16,000 in 2006, and net losses of \$1.0 million for the year ended December 31, 2005. The net loss on sale of other real estate owned, repossessed assets and other assets during 2007 was directly attributable to our strategy of being more aggressive in the sale of repossessed vehicles to expedite their disposition and avoid the build up of our repossessed vehicles inventory, primary during the first and second quarter of 2007. This strategy resulted in a significant reduction in the number of repossessed vehicles in inventory. During five quarters in a row, sales of repossessed vehicles exceeded the number of units repossessed. The number of repossessed vehicles in inventory as of December 31, 2007 decreased to 325 units, or by approximately 42%, from 564 units as of December 31, 2006, after increasing by 27.0% from 444 units as of December 31, 2005. This is the lowest level of repossessed vehicles in inventory since August 2005.

During 2006, the decrease in the net loss on sale of other real estate owned, repossessed assets and other assets was in part due to the sale of a real estate property during the second quarter of 2006, which resulted in a gain of approximately \$362,000, but primarily to the refinements we made to our methodology for estimating the net realizable value of vehicles upon repossession and to our decision of increasing the valuation allowance of repossessed vehicles in an effort to expedite the disposition of slow moving inventory, as previously mentioned. We continue monitoring the repossessed vehicles inventory very closely and taking measures to expedite its disposition. For more details on repossessed assets please refer to the section of this discussion and analysis captioned "Nonperforming Loans, Leases and Assets."

Noninterest Expense

The following table set forth a summary of noninterest expenses for the periods indicated:

	Year Ended December 31,					
	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Salaries and employee benefits	\$19,890	41.1%	\$17,507	40.3%	\$14,727	39.2%
Occupancy and equipment	10,899	22.6	9,565	22.0	8,555	22.7
Professional services, including directors' fees	4,496	9.3	4,104	9.5	3,912	10.4
Office supplies	1,375	2.9	1,394	3.2	1,163	3.1
Other real estate owned and other repossessed assets expenses	2,340	4.9	2,290	5.3	1,096	2.9
Promotion and advertising	1,492	3.1	1,200	2.8	686	1.8
Lease expenses	507	1.1	776	1.8	862	2.3
Insurance	1,865	3.9	1,053	2.4	1,095	2.9
Municipal and other taxes	1,837	3.8	1,657	3.8	1,674	4.4
Commissions and service fees credit and debit cards	1,445	3.0	1,324	3.1	1,364	3.6
Other noninterest expense	2,079	4.3	2,516	5.8	2,509	6.7
Total noninterest expense	\$48,225	100.0%	\$43,386	100.0%	\$37,643	100.0%

Our total noninterest expense increased to \$48.2 million in 2007, from \$43.4 million in 2006 and \$37.6 million in 2005. This represents a year over year increase in noninterest expense of 11.15% for 2007 and 15.26%

for 2006. These increases are primarily attributable to increases in personnel and occupancy costs, professional services, and insurance expense, mainly related to the FDIC's new insurance premium assessment. Noninterest expenses as a percentage of average assets increased to 1.93% in 2007, from 1.79% in 2006 and 1.68% in 2005. Our efficiency ratio was 63.48% in 2007, 57.9% in 2006 and 47.8% in 2005. The efficiency ratio is determined by dividing total noninterest expense by an amount equal to net interest income on a fully taxable equivalent basis plus noninterest income.

We anticipate that the overall volume of our noninterest expense will continue to increase as we grow. However, we remain committed to controlling costs and efficiency and expect to moderate these increases relative to our revenue growth.

Salaries and employee benefit expenses increased to \$19.9 million in 2007, from \$17.5 million in 2006. This increase was mainly attributable to an increase of approximately \$2.0 million in salary adjustments and expanded personnel for business growth, after considering a decrease of \$1.1 million in costs deferred upon a reduction in leasing originations; a \$202,000 increase related to the opening of four branches during 2007; and an increase of approximately \$217,000 related to employees' benefits, mainly related to an increase in the medical plan expense.

Salaries and employee benefit expenses increased to \$17.5 million in 2006, from \$14.7 million in 2005. This increase was mainly attributable to an increase of approximately \$1.9 million in salary adjustments and expanded personnel for business growth; and an increase of approximately \$870,000 related to employees' benefits, mainly related to an increase in: social security payroll taxes, the stock based compensation expense, and the medical plan expense.

Occupancy and equipment expenses increased to \$10.9 million in 2007 from \$9.6 million in 2006. This increase was mainly attributable to an increase of approximately \$350,000 related to the opening of our most four recent branches throughout 2007, an increase of approximately by \$91,000 related to the growth of our residential mortgage business, and a increase of approximately \$893,000 primarily related to an increase in utilities, equipment maintenance, property tax expenses, and data communications, and security services, of which approximately \$157,000 was related to our new headquarters.

Occupancy and equipment expenses increased to \$9.6 million in 2006, from \$8.6 million in 2005. This increase was mainly attributable to an increase of approximately \$410,000 related to our lease financing and trust businesses, an increase of approximately \$342,000 related to the opening of our most two recent branches in September and December 2005, respectively, and an increase of approximately \$164,000 related to our data processing systems.

Professional and directors' fees were \$4.5 million, \$4.1 million and \$3.9 million, or 9.3%, 9.5% and 10.4% of total noninterest expenses, in 2007, 2006 and 2005, respectively. During 2007, the increase in professional and directors' fees was mainly due to \$580,000 in fees related to the information technology outsourcing agreement we entered with Telefónica Empresas in August 2007, which include one time fees of \$73,000; \$125,000 in legal fees related to this outsourcing agreement; \$441,000 in other compliance consulting services, primarily in connection with the Cease and Desist Order, as previously mentioned; \$61,000 in internal audit consulting services; and \$14,000 in other legal fees in connection with our trust operations; net of \$300,000 related to additional expenses billed during the first quarter of 2006 by our former external auditors in connection with year 2005 audit and compliance with the Sarbanes Oxley Act.

Our expenses related to OREO and repossessed assets remained at \$2.3 million, or 4.9% and 5.3% of total interest expense in 2007 and 2006, respectively, compared to \$1.1 million, or 2.9% of total noninterest expense in 2005. The increase in these expenses during 2006 was attributable primarily to the combined effect of an increase in the average number of repossessed vehicles in inventory, which resulted in increased repairs and maintenance expenses, and an increase in the valuation allowance of repossessed vehicles in an effort to expedite their disposition in the future. During 2006, the average number of repossessed vehicles in inventory increased by 56.98% to 540 units, when compared to 344 vehicles for 2005.

Promotion and advertising increased to \$1.5 million in 2007, from \$1.2 million and \$686,000 in 2006 and 2005, respectively. These increases were mainly attributable to an advertising campaign, primarily related to our residential mortgage loan department, to take advantage of opportunities on the Island.

Insurance expenses increased to \$1.9 million in 2007, from \$1.1 million for each of the years ended December 31, 2006 and 2005, respectively. The increase in insurance expense during 2007 was mainly related to the FDIC's new insurance premium assessment, which commenced in January 2007. For the year ended December 31, 2007, total FDIC insurance premiums amounted to \$892,000, net of the one time assessment credit of \$669,000, as previously explained, compared to \$212,000 and \$194,000 for years 2006 and 2005, respectively.

Lease expenses decreased by 34.66% to \$507,000 in 2007, after decreasing by 9.98% to \$776,000 in 2006, from \$862,000 in 2005. These expenses are primarily comprised of registration costs on leased vehicles and license renewal expenses on repossessed vehicles. The decrease in leases expenses during 2007 and 2006 was mainly attributable to a reduction of 16.59% and 36.21% in lease portfolio originations for 2007 and 2006, respectively.

Other noninterest expenses decrease to \$2.1 million for the year ended December 31, 2007, from \$2.5 million for each of the years ended December 31, 2006 and 2005, respectively. During 2007, the decrease in other non-interest expenses was mainly associated with the provision for losses on off-balance sheet items and insurance claim receivables.

Provision for Income Taxes

Puerto Rico income tax law does not provide for the filing of a consolidated tax return; therefore, the income tax expense reflected in our consolidated income statement is the sum of our income tax expense and the income tax expenses of our individual subsidiaries. Our revenues are generally not subject to U.S. federal income tax.

Income tax expense is the sum of two components: current tax expense and deferred tax expense (benefit). Current tax expense is calculated by applying our current tax rate to taxable income. The deferred tax expense (benefit) reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets and liabilities represent the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in our financial statements.

For the year ended December 31, 2007, we recorded an income tax benefit of \$249,000 compared to an income tax expense of \$6.3 million in 2006, and \$9.1 million in 2005. Our income tax provision for year ended December 31, 2007, 2006 and 2005 was comprised of a current income tax expense of \$4.4 million, \$7.3 million and \$1.8 million, respectively, and a deferred tax benefit of \$4.6 million and \$684,000 for 2007 and 2006, respectively, compared to a deferred tax expense of \$7.3 million in 2005.

Our current income tax expense for the year ended December 31, 2007 decreased to \$4.4 million, from \$7.3 million in 2006, after increasing from \$1.8 million in 2005. During 2007, the decrease in our current income tax expense was mainly due to the net effect of: (i) a reduction in our income before taxes; (ii) an increase in the net exempt income during 2007; (iii) the total consumption during the quarter ended March 31, 2006 of net operating losses ("NOLs") from acquired financial institutions; and (iv) the termination on December 31, 2006 of the additional transitory taxes of 4.5% imposed by the Puerto Rico Legislature in 2006. The increase in our current income tax expense during 2006 was mainly due to the total consumption of NOLs from acquired institutions, which was substantially lesser than the amount consumed in 2005.

Our deferred tax benefit for the year ended December 31, 2007 increased to \$4.6 million, from a deferred tax benefit of \$684,000 in 2006, compared to a deferred tax expense of \$7.3 million in 2005. During 2007, the increase in the deferred tax benefit was mainly due an increase in deferred tax assets mainly due to an increase in our provision for loan and lease losses as of December 31, 2007, primarily during the third quarter of 2007. The change in the deferred tax provision during 2006 was mainly due to the combined effect of: (i) a substantially lesser amount of NOLs from acquired institutions consumed during 2006 when compared to 2005; and (ii) a decrease in deferred loan and leases net origination costs.

As of December 31, 2007, 2006 and 2005 we had net deferred tax assets of \$10.9 million, \$6.3 million and \$5.1 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this assessment, management considers the scheduled reversal of deferred tax liabilities; projected future taxable income; our compliance with the Financial Accounting Standards

Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes; and tax planning strategies. We believe it is more likely than not that the benefits of these deductible differences at December 31, 2007 will be realized.

On December 14, 2007, the governor of Puerto Rico approved and signed Law No. 197, which offers tax credits to financial institutions on the financing of qualified residential mortgages. These tax credits vary based on whether the property to be financed is an existing dwelling or a new construction and whether it will be occupied by the buyer or is acquired for investment purposes. The tax credits are limited, subject to certain restrictions, to a maximum of a 20% of the property's selling price, or \$25,000, whichever is lower. This law expires on June 30, 2008 or when the tax credits granted reach the total allotted amount of \$220.0 million, whichever occurs first. The tax credit will become available to us for the taxable years beginning after December 31, 2007 up to taxable year ended December 31, 2011 and it will not impact our net income tax provision.

On May 16, 2006, the governor of Puerto Rico approved and signed Law No. 98, the "Law of the 2006's Extraordinary Tax." This law imposed a prepaid tax of 5% over the 2005 taxable net income by for profit partnerships and corporations with gross income over \$10.0 million. The Company could use the payment in equal portions as a tax credit in the income tax return for the taxable years beginning after December 31, 2006. No income tax expense was recorded in 2006 related to this law since such prepayment was to be used as a tax credit in the income tax return of taxable years beginning after December 31, 2006.

On May 13, 2006, the governor of Puerto Rico approved and signed Law No. 89, which imposed an additional transitory tax of 2% on taxable income. This tax was applicable to the Banking industry raising the maximum statutory tax rate to 43.5% for taxable years beginning after December 31, 2005 and ending on or before December 31, 2006. This law also stated that for taxable years beginning after December 31, 2006, the maximum statutory tax rate will be 39%.

On August 1, 2005, the governor of Puerto Rico approved and signed Law No. 41, which imposed an additional transitory tax of 2.5% on taxable income. This additional tax increased the maximum statutory tax rate from 39.0% to 41.5% and is applicable to all corporations and partnerships with taxable income in excess of \$20,000 during the taxable years beginning after December 31, 2004 and ending on or before December 31, 2006.

The approval of the additional transitory taxes of over the original maximum statutory tax rate of 39% as mentioned above, resulted in additional income tax expense of \$755,000 and \$27,000 for the years ended December 31, 2006 and 2005, respectively.

Financial Condition

Our total assets as of December 31, 2007 were \$2.8 billion, compared to \$2.5 billion and \$2.4 billion as of December 31, 2006 and 2005, respectively. The increase in our total assets during 2007 was primarily the net result of a decrease in securities purchased under agreements to resell, an increase in our investment securities portfolio, the organic growth of our loan portfolio, and an increase in premises and equipment. During 2006, the increase was primarily the net result of organic growth in our loan portfolio and a decrease in our investment portfolio.

Our total deposits increased by 4.60% to \$2.0 billion in 2007, after increasing by 9.87% to \$1.9 billion as of December 31, 2006, from \$1.7 billion as of December 31, 2005. The increase in deposits during 2007 and 2006 was concentrated in broker deposits, as further explained below. Other borrowings increased to \$547.5 million in 2007, after decreasing to \$395.0 million as of December 31, 2006, from \$475.7 million as of December 31, 2005. The increase in broker deposits and other borrowings during 2007 was mainly attributable to the fierce competition for core deposits on the Island due to a reduction of local funding sources. This fierce competition for local deposits has made broker deposits and other borrowings an attractive funding alternative, resulting in lower funding costs when compared to the unusually higher rates offered locally for time deposits. We decided to pursue the use of the broker deposits and other borrowings' alternative in an attempt to control the continuous increase in our funding cost. In 2006, the decrease in other borrowings was mainly related to a decrease in securities sold under agreements to repurchase and the redemption of trust preferred securities, as previously mentioned.

Stockholders' equity increased by 5.91% to \$179.9 million as of December 31, 2007, representing an increase of \$10.0 million from \$169.9 million as of December 31, 2006. As of December 31, 2006, our stockholders' equity was \$169.9 million, representing an increase of 2.8% from \$165.0 million as of December 31, 2005. Besides earnings and losses from operations, stock options exercised, a private placement, and stock repurchases, our stockholders' equity was also impacted by accumulated an other comprehensive gain of \$1.1

million during 2007 and other comprehensive losses of \$7.6 million and \$10.4 million during the years ended December 31, 2006 and 2005, respectively. In addition, during 2006, the Company's stockholders' equity was also affected by the cumulative effect of a \$791,000 adjustment on the initial adoption of Staff Accounting Bulletin No. 108 ("SAB 108"). For more detail on the initial adoption of SAB 108, please refer to "Note 2(z) – Recently Issued Accounting Standards" to our consolidated financial statements.

Short-Term Investments and Interest-bearing Deposits in Other Financial Institutions

We sell federal funds, purchase securities under agreements to resell, and deposit funds in interest-bearing accounts in other financial institutions to help meet liquidity requirements and provide temporary holdings until the funds can be otherwise deployed or invested. As of December 31, 2007, 2006 and 2005, we had \$32.3 million, \$49.1 million and \$20.8 million, respectively, in interest-bearing deposits in other financial institutions. Also, we had \$19.9 million, \$51.2 million and \$54.1 million in securities purchased under agreements to resell as of those same dates, respectively. On a fully taxable equivalent basis, the yield on interest-bearing deposits and the purchased securities under agreements to resell was 5.83%, 5.46% and 4.80% for the years ended December 31, 2007, 2006 and 2005, respectively.

Investment Securities

Our investment portfolio primarily serves as a source of interest income and, secondarily, as a source of liquidity and a management tool for our interest rate sensitivity. We manage our investment portfolio according to a written investment policy implemented by our Asset/Liability Management Committee. Our investment policy is reviewed at least annually by our Board of Directors. Investment balances, including cash equivalents and interest-bearing deposits in other financial institutions, are subject to change over time based on our asset/liability funding needs and our interest rate risk management objectives. Our liquidity levels take into consideration anticipated future cash flows and all available sources of credits and are maintained at levels management believes are appropriate to assure future flexibility in meeting our anticipated funding needs.

Our investment portfolio mainly consists of securities classified as "available-for-sale" and a small portion of securities we intend to hold until maturity, or "held-to-maturity securities." The carrying values of our available-for-sale securities are adjusted for unrealized gain or loss as a valuation allowance, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income (loss). Held-to-maturity securities are presented at amortized cost.

The following table presents the composition, book value and fair value of our investment portfolio by major category as of the dates indicated:

	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>		<u>Other Investments</u>		<u>Total</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
(Dollars in thousands)								
December 31, 2007:								
U.S. government agencies obligations	\$ 129,020	\$ 129,398	\$ 2,775	\$ 2,762	\$ —	\$ —	\$ 131,795	\$ 132,160
Collateralized mortgage obligations	404,804	404,856	23,421	23,092	—	—	428,225	427,948
Mortgage-backed securities	163,552	164,390	4,649	4,598	—	—	168,201	168,988
State and municipal obligations	5,616	5,716	—	—	—	—	5,616	5,716
US Corporate Notes	3,000	2,744	—	—	—	—	3,000	2,744
Other investments	—	—	—	—	13,354	13,354	13,354	13,354
Total	<u>\$ 705,992</u>	<u>\$ 707,104</u>	<u>\$ 30,845</u>	<u>\$ 30,452</u>	<u>\$ 13,354</u>	<u>\$ 13,354</u>	<u>\$ 750,191</u>	<u>\$ 750,910</u>
December 31, 2006:								
U.S. government agencies obligations	\$ 178,533	\$ 176,255	\$ 3,165	\$ 3,072	\$ —	\$ —	\$ 181,698	\$ 179,327
Collateralized mortgage obligations	305,044	300,192	29,878	29,142	—	—	334,922	329,333
Mortgage-backed securities	49,628	49,149	5,390	5,260	—	—	55,018	54,409
State and municipal obligations	9,518	9,563	—	—	—	—	9,518	9,563
Other investments	—	—	—	—	4,329	4,329	4,329	4,329
Total	<u>\$ 542,723</u>	<u>\$ 535,159</u>	<u>\$ 38,433</u>	<u>\$ 37,474</u>	<u>\$ 4,329</u>	<u>\$ 4,329</u>	<u>\$ 585,485</u>	<u>\$ 576,962</u>
December 31, 2005:								
U.S. government agencies obligations	\$ 230,892	\$ 227,081	\$ 3,763	\$ 3,663	\$ —	\$ —	\$ 234,655	\$ 230,744
Collateralized mortgage obligations	333,154	327,399	32,386	31,590	—	—	365,540	358,989
Mortgage-backed securities	65,560	64,779	6,322	6,158	—	—	71,882	70,937
State and municipal obligations	7,902	7,821	—	—	—	—	7,902	7,821
Other investments	—	—	—	—	10,652	10,652	10,652	10,652
Total	<u>\$ 637,508</u>	<u>\$ 627,080</u>	<u>\$ 42,471</u>	<u>\$ 41,411</u>	<u>\$ 10,652</u>	<u>\$ 10,652</u>	<u>\$ 690,631</u>	<u>\$ 679,143</u>

During 2007, the investment portfolio increased by approximately \$173.4 million to \$751.3 million as of December 31, 2007, from \$577.9 million as of December 31, 2006. The increase during 2007 was primarily due to the net effect of:

- the purchase of \$315.2 million in mortgage-backed securities and \$3.0 million in corporate debt;
- prepayments of approximately \$104.7 million on mortgage-backed securities and FHLB obligations; and
- \$52.7 million in a FNMA note and various US and Puerto Rico government agencies obligations that matured or were called-back during the year;

During 2006, the investment portfolio decreased by approximately \$102.3 million to \$577.9 million as of December 31, 2006, from \$680.2 million as of December 31, 2005. The decrease during 2006 was primarily due to the net effect of:

- prepayments for approximately \$100.4 million of mortgage backed securities;
- the purchase of \$55.4 million in mortgage backed securities, \$30.0 million in US government agencies obligations and FHLB stocks, and \$5.0 million of Puerto Rico Agency Notes;
- a \$50.1 million sale of FHLB and mortgage backed securities available for sale with an average book yield of 3.64% at the time of sale, which were sold in December 2006 in an effort to improve our net interest margin resulting in a net loss on sale of investments of \$1.1 million, as previously mentioned; and
- a decrease of \$38.3 million in US government agencies obligations due to monthly principal prepayments and maturity of FHLB, FNMA & FHLMC obligations and the redemption of FHLB stocks.

Before 2007, we were positioning our investment portfolio for an increase in interest rates by purchasing mostly investments with short term maturities or estimated maturities between 1½ to 4 years. As part of this positioning, in the fourth quarter of 2006, we sold approximately \$50.1 million of FHLB and mortgage-backed securities available for sale with an average yield of 3.64% since we expected an improvement in the yield curve during 2007.

During 2007, we continued analyzing different market opportunities in an attempt to improve the investment portfolio's average yield and to maintain an adequate average life. During the second half of 2007, the market presented some good investment opportunities as a result of the liquidity crises faced by some banks and brokers in the mainland, which made them sell part of their investment securities portfolios at wider spreads to reduce their total assets. We were able to acquire securities that improved our average yield and extended the average maturity of the portfolio. For the year ended December 31, 2007, we purchased approximately \$318.2 million in mortgage-backed securities and corporate debt with an estimated average life of approximately 7.8 years and an estimated average yield of 6.02%. Purchased mortgage-backed securities included approximately \$172.0 million in US agency obligations guaranteed by the US government sponsored enterprises and \$142.2 million in private label collateral mortgage obligations with FICO scores and loan-to-values similar to FNMA and FHLMC underwriting standards and characteristics.

For the year ended December 31, 2007, after the above-mentioned transactions, the estimated average maturity was approximately 4.8 years and the average yield was approximately 5.06%, compared to an estimated average maturity of 3.2 years and an average yield of 4.64% for the year ended December 31, 2006.

Investment Portfolio — Maturity and Yields

The following table summarizes the estimated average maturity of investment securities held in our investment portfolio and their weighted average yields:

Year ended December 31, 2007										
	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years		Total	
	Amount	Yield ⁽⁴⁾	Amount	Yield ⁽⁴⁾	Amount	Yield ⁽⁴⁾	Amount	Yield ⁽⁴⁾	Amount	Yield ⁽⁴⁾
(Dollars in thousands)										
Investments available-for-sale:⁽¹⁾⁽²⁾										
U.S. government agencies obligations	\$ 122,233	4.68%	\$ 7,165	5.23%	\$ —	—%	\$ —	—%	\$ 129,398	4.71%
Mortgage backed securities ⁽³⁾	2,554	4.33	23,759	4.92	116,668	5.22	21,408	6.08	164,390	5.28
Collateral mortgage obligations ⁽³⁾	25,411	4.02	246,576	4.97	132,869	5.58	—	—	404,856	5.11
State & political subdivisions	795	6.11	4,921	4.72	—	—	—	—	5,716	4.91
Us Corporate Notes	2,744	6.79	—	—	—	—	—	—	2,744	6.79
Total investments available-for-sale	\$ 153,737	4.61%	\$ 282,421	4.97%	\$ 249,537	5.41%	\$ 21,408	6.08%	\$ 707,104	5.08%
Investments held-to-maturity:⁽²⁾										
U.S. government agencies obligations	\$ —	—%	\$ 2,775	3.95%	\$ —	—%	\$ —	—%	\$ 2,775	3.95%
Mortgage backed securities ⁽³⁾	—	—	—	—	4,649	5.03	—	—	4,649	5.03%
Collateral mortgage obligations ⁽³⁾	7,284	4.00	2,806	4.29	13,391	5.05	—	—	23,421	4.63
Total investments held-to-maturity	\$ 7,284	4.00%	\$ 5,581	4.12%	\$ 17,980	5.04%	\$ —	—%	\$ 30,845	4.63%
Other Investments:										
FHLB stock	12,744	8.05%	—	—%	—	—%	—	—%	12,744	8.05%
Investment in statutory trust	—	—	—	—	—	—	610	8.11	610	8.11
Total other investments	\$ 12,744	8.05%	\$ —	—%	\$ —	—%	\$ 610	8.11%	\$ 13,354	8.05%
Total investments	\$ 173,765	4.83%	\$ 288,002	4.95%	\$ 267,517	5.39%	\$ 22,018	6.14%	\$ 751,303	5.11%

(1) Based on estimated fair value.

(2) Almost all of our income from investments in securities is tax exempt because 99.83% of these securities are held in our IBEs. The yields shown in the above table are not calculated on a fully taxable equivalent basis.

(3) Maturities of mortgage-backed securities and collateralized mortgage obligations, or CMOs, are based on anticipated lives of the underlying mortgages, not contractual maturities. CMO maturities are based on cash flow (or payment) windows derived from broker market consensus.

(4) Represents the present value of the expected future cash flows of each instrument discounted at the estimated market rate offered by other instruments that are currently being traded in the market with similar credit quality, expected maturity and cash flows. For other investments, it represents the last dividend received.

Other Investments

For various business purposes, we make investments in earning assets other than the interest-earning securities discussed above. As of December 31, 2007, our investment in other earning assets included \$12.7 million

in FHLB stock and \$610,000 equity in our statutory trusts. The following table presents the balances of other earning assets as of the dates indicated:

Type	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Statutory trusts.....	\$ 610	\$ 611	\$ 1,382
FHLB stock.....	12,744	3,718	9,270
Total	<u>\$ 13,354</u>	<u>\$ 4,329</u>	<u>\$ 10,652</u>

Dividends on FHLB stock amounted to \$393,000, \$528,000 and \$380,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Loan and Lease Portfolio

Our primary source of income is interest on loans and leases. The following table presents the composition of our loan and lease portfolio by category as of the dates indicated, excluding loans held for sale secured by real estate amounting to \$1.4 million, \$879,000, \$936,000, \$2.7 million and \$6.8 million as of December 31, 2007, 2006, 2005 2004 and 2003, respectively:

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Real estate secured.....	\$ 900,036	\$ 813,615	\$ 658,123	\$ 516,542	\$ 317,491
Leases	385,390	443,311	487,863	459,251	315,935
Other commercial and industrial.....	302,530	297,512	272,205	243,603	177,989
Consumer.....	57,745	60,682	63,980	74,755	26,592
Real estate – construction	203,344	126,241	82,468	79,334	47,370
Other loans ⁽¹⁾	6,850	5,015	5,336	6,134	4,236
Gross loans and leases	\$ 1,855,895	\$ 1,746,376	\$ 1,569,975	\$ 1,379,619	\$ 889,613
Plus: Deferred loan costs, net....	2,366	4,880	7,442	6,480	4,707
Total loans, including deferred loan costs, net	\$ 1,858,261	\$ 1,751,256	\$ 1,577,417	\$ 1,386,099	\$ 894,320
Less: Unearned income.....	(1,042)	(1,297)	(1,157)	(1,170)	(1,774)
Total loans, net of unearned income	\$ 1,857,219	\$ 1,749,959	\$ 1,576,260	\$ 1,384,929	\$ 892,546
Less: Allowance for loan and lease losses.....	(28,137)	(18,937)	(18,188)	(19,039)	(9,394)
Loans, net.....	<u>\$ 1,829,082</u>	<u>\$ 1,731,022</u>	<u>\$ 1,558,072</u>	<u>\$ 1,365,890</u>	<u>\$ 883,152</u>

(1) Other loans are comprised of overdrawn deposit accounts.

As of December 31, 2007, 2006 and 2005, our total loans and leases, net of unearned income, were \$1.9 billion, \$1.7 billion and \$1.6 billion, respectively. The increase in our loan and lease volume in 2007 and 2006 resulted from the organic growth of our operations. Our total loans and leases, net of unearned income as a percentage of total assets was 67.6%, 70.0% and 66.0% as of December 31, 2007, 2006 and 2005, respectively.

Real estate secured loans, the largest component of our loan and lease portfolio, include residential mortgages but is primarily comprised of commercial real estate loans and/or commercial lines of credit that are extended to finance the purchase and/or improvement of commercial real estate and/or businesses thereon or for business working capital purposes. The properties may be either owner-occupied or for investment purposes. Our loan policy adheres to the real estate loan guidelines promulgated by the FDIC in 1993. The policy provides guidelines including, among other things, review of appraised value, limitation on loan-to-value ratio, and minimum cash flow requirements to service debt. On occasions, the bank grants real estate secured loans for which the loan-to-values exceed 100%. In those instances, additional forms of collateral or guaranties are obtained. Loans secured by real estate, excluding construction loans, equaled \$900.0 million, \$813.6 million and \$658.1 million as of December 31, 2007, 2006 and 2005, respectively. The volume of our real estate loans has increased significantly as a result of our organic growth. Real estate secured loans, excluding real estate secured construction loans, as a percentage of total loans and leases increased to 48.4% in 2007, from 46.6% in 2006, and from 41.9% in 2005.

Loans secured by real estate included residential mortgages amounting to \$106.9 million as of December 31, 2007, which increased by \$30.7 million, or by 40.21%, when compared to \$76.3 million as of December 31, 2006, after increasing by 70.10% from \$44.8 million as of December 31, 2005. These increases in residential mortgages mainly resulted from our strategy of expanding our residential mortgage operations to take advantage of opportunities in this area on the Island, as previously mentioned.

Lease financing contracts, the second largest component of our loan portfolio, consist of automobile and equipment leases made to individuals and corporate customers. We continue emphasizing on automobile leasing. For 2007, approximately 58.31% of our lease financing contracts originations were for new automobiles, approximately 38.72% were for used automobiles and the remaining 2.97% consisted primarily of construction and medical equipment leases. The volume of our lease financing contracts decreased to \$385.4 million as of December 31, 2007, from \$443.3 million and \$487.9 million as of December 31, 2006 and 2005, respectively. Lease financing contracts, as a percentage of total loans and leases were 20.8%, 25.4% and 31.0% at the end of 2007, 2006 and 2005, respectively. The decrease in our lease portfolio during 2007 and 2006 resulted from the proactive actions we started taking during the third quarter of 2005 to tightening our underwriting standards, enhance our collections efforts and strategically pare back our automobile leasing operations upon the deterioration of our lease portfolio, mainly during the last quarter of 2005. During September 2005 and March 2005, we sold lease financing contracts on a limited recourse basis to a third party with carrying values of \$15.0 million and \$14.9 million, respectively. We did not sell lease financing contracts during 2007 and 2006.

Other commercial and industrial loans include revolving lines of credit as well as term business loans, which are primarily collateralized by accounts receivable and the assets being acquired, such as equipment or inventory, and other forms of collaterals or guaranties. Other commercial and industrial loans increased to \$302.5 million as of December 31, 2007, from \$297.5 million in 2006 and \$272.2 million in 2005. The increase in other commercial and industrial loans in 2007 and 2006 was due to our organic growth. Other commercial and industrial loans as a percentage of total loans were 16.3%, 17.0%, and 17.3% at the end of 2007, 2006 and 2005, respectively.

Construction loans secured by real estate totaled \$203.3 million, \$126.2 million and \$82.5 million as of December 31, 2007, 2006 and 2005, respectively. Construction loans secured by real estate as a percentage of total loans and leases were 10.96%, 7.2% and 5.3% for those same periods, respectively. During 2007 and 2006, the increase in construction loans secured by real estate resulted from our organic growth, which was primarily comprised of loans for the construction of residential multi-family projects that, although private, are moderately priced or of the affordable type supported by government assisted programs, and other loans for land development and the construction of commercial real estate property.

Consumer loans have historically represented a small part of our total loan and lease portfolio. The majority of consumer loans consist of personal installment loans, credit cards, boat loans, and consumer lines of credit. We make consumer loans only to complement our commercial business, and these loans are not emphasized by our branch managers. As a result, repayment on this portfolio has generally exceeded or equaled origination, except for 2004, when we acquired consumer loans in connection with our acquisition of former BankTrust. Consumer loans as a percentage of total loans and leases were 3.15%, 3.5% and 4.1% at the end of 2007, 2006 and 2005, respectively. Consumer loans as of December 31, 2007, 2006 and 2005 included a boat portfolio of \$35.0 million, \$37.4 million and \$39.7 million, respectively; \$13.4 million, \$13.8 million and \$15.3 million, respectively, in unsecured installment loans; and credit cards and open-end loans for \$9.3 million, \$9.5 million and \$9.0 million, respectively.

Our loan terms vary according to loan type. Commercial term loans generally have maturities of three to five years, while we generally limit commercial loans secured by real estate maturities to five to eight years. Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. Leases are offered for terms up to 72 months.

The following table shows our maturity distribution of loans and leases, including loans held for sale of \$1.4 million, as of December 31, 2007, excluding non-accrual loans amounting to \$69.0 million as of the same date. A significant part of our non-consumer loan portfolio is floating rate loans which comprise both commercial and industrial loans and commercial real estate loans. By contrast, residential mortgage loans originated by Eurobank are fixed rate. Residential mortgage loans are included in the real estate - secured category in the following table.

As of December 31, 2007

		Over 1 Year through 5 Years		Over 5 Years		
	One Year or Less ⁽¹⁾	Fixed Rate	Floating or Adjustable Rate	Fixed Rate	Floating or Adjustable Rate	Total
(In thousands)						
Real estate — construction	\$ 228,765	\$ 283	\$ 2,470	\$ 532	\$ -	\$ 232,050
Real estate — secured.....	246,775	198,878	224,188	132,240	14,158	816,239
Other commercial and industrial....	229,046	24,229	31,199	1,970	11,301	297,715
Consumer.....	7,314	15,398	1,719	32,378	152	56,961
Leases	16,487	335,496	-	28,914	-	380,897
Other loans.....	5,727	-	-	-	-	5,727
Total	\$ 734,114	\$ 574,284	\$ 259,576	\$196,004	\$ 25,611	\$1,789,589

(1) Maturities are based upon contract dates. Demand loans are included in the one year or less category and totaled \$539.7 million as of December 31, 2007.

Nonperforming Loans, Leases and Assets

Nonperforming assets consist of loans and leases on nonaccrual status, loans 90 days or more past due and still accruing interest, loans that have been restructured resulting in a reduction or deferral of interest or principal, OREO, and other repossessed assets.

The following table sets forth the amounts of nonperforming assets (net of the portion guaranteed by the United States government) as of the dates indicated:

	As of December 31,				
	2007	2006	2005	2004	2003
(Dollars in thousands)					
Loans contractually past due 90 days or more but still accruing interest	\$29,075	\$12,723	\$ 8,560	\$ 8,365	\$9,700
Nonaccrual loans	68,990	37,255	27,703	32,168	17,058
Total nonperforming loans	98,065	49,978	36,263	40,533	26,758
Other real estate owned	8,125	3,629	1,542	2,875	2,774
Other repossessed assets	5,409	9,419	7,975	3,566	3,643
Total nonperforming assets.....	<u>\$111,599</u>	<u>\$63,026</u>	<u>\$45,780</u>	<u>\$46,974</u>	<u>\$ 33,175</u>
Nonperforming loans to total loans and leases, net of unearned	5.28%	2.85%	2.30%	2.92%	2.98%
Nonperforming assets to total loans and leases, net of unearned, plus repossessed property	5.96	3.57	2.89	3.37	3.66
Nonperforming assets to total assets	4.06	2.52	1.91	2.23	2.51
Allowance for loan and lease losses to nonperforming loans	28.69	37.89	50.16	46.97	35.11

We continually review present and estimated future performance of the loans and leases within our portfolio and risk-rate such loans in accordance with a risk rating system. More specifically, we attempt to reduce the exposure to risks through: (1) reviewing each loan request and renewal individually; (2) utilizing a centralized approval system for all unsecured loans and secured loans over individual managers' limit; (3) strictly adhering to written loan policies; and (4) conducting an independent credit review. In general, we receive and review financial statements of borrowing customers on an ongoing basis during the term of the relationship and respond to any deterioration noted.

Loans are generally placed on nonaccrual status when they become 90 days past due, unless we believe the loan is adequately collateralized and we are in the process of collection. For loans placed in nonaccrual status, the nonrecognition of interest income on an accrual basis does not constitute forgiveness of the interest, and collection efforts are continuously pursued. Loans may be restructured by management when a borrower has experienced some change in financial status, resulting in an inability to meet the original repayment terms, and when we believe the borrower will eventually overcome financial difficulties and repay the loan in full.

All interest accrued but not collected for loans and leases that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on a cost recovery method, until qualifying for return to accrual status.

Nonperforming assets consist of loans 90 days or more past due still accruing interest, loans and leases on non accrual status, OREO, and other repossessed assets. Non performing assets increased to \$111.6 million as of December 31, 2007, from \$63.0 million and \$45.8 million as of December 31, 2006 and 2005, respectively. Nonperforming assets to total assets increased to 4.06% as of December 31, 2007, from 2.52% and 1.91% as of December 31, 2006 and 2005, respectively.

Non-performing loans are comprised of loans 90 days or more past due and still accruing interest, and loans and leases on nonaccrual status. The nonperforming loans increased to \$98.1 million as of December 31, 2007, from \$50.0 million as of December 31, 2006, after increasing by \$13.7 million from \$36.3 million as of December 31, 2005, as further explained below. Nonperforming loans to total loans increased to 5.28% as of December 31, 2007, from 2.85% and 2.30% as of December 31, 2006 and 2005, respectively.

The increase in nonperforming loans during 2007 was mainly due to combined effect of a \$16.4 million increase in loans 90 days or more past due still accruing interest and an increase of \$31.7 million nonaccrual loans. During 2007, the increase in loans 90 days or more past due still accruing interest was mainly due to the combined effect of: a \$14.9 million increase in loans secured by real estate; a \$747,000 increase in other commercial and industrial loans; a \$381,000 increase in lease financing contracts; and a \$195,000 increase in overdraft. Our historical losses on commercial and construction loans secured by real estate have been low. The \$14.9 million increase in loans secured by real estate was mainly caused by two commercial business relationships, of which one was in the construction industry amounting to \$11.0 million and the other was in the dairy business amounting to \$2.6 million, which was partially secured by real estate, and also had milk production quotas among other assets serving as collateral.

The \$31.7 million increase in nonaccrual loans during 2007 was mainly due to the net effect of a \$28.7 million increase in loans secured by real estate; a \$4.5 million increase related to one construction business relationship, which was partially secured by real estate and also had other corporate guaranties; a \$935,000 decrease in lease financing contracts; and a \$513,000 decrease in marine loans. The \$28.7 million increase loans secured by real estate was mainly caused by: (i) six commercial business relationships amounting to \$11.9 million secured by real estate of which two amounting to \$6.3 million were in the communication and service industries, respectively, three were in the commercial trade and/or construction industries amounting to \$2.6 million, and another was in the elective health services industry amounting to \$3.0 million; (ii) five commercial business relationships amounting to \$14.4 million partially secured by real estate, of which two were in the dairy farm business amounting to \$4.6 million and had milk production quotas servicing as collateral, and the other three were in the food retailing, security systems, and service industry; and (iii) other two in the general freight and health care industries, respectively, amounting to \$2.2 million not secured by real estate.

The increase in nonperforming loans during 2006 was mainly due to the combined effect of a \$4.2 million increase in loans 90 days or more past due still accruing interest and an increase of \$9.6 million in nonaccrual loans. During 2006, the increase in loans 90 or more days still accruing interest was mainly concentrated in one business relationship secured by real estate for \$4.3 million. The increase in nonaccrual loans during 2006 was mainly attributable to the combined effect of: an increase of \$9.0 million in commercial and construction loans; and an increase of \$843,000 in marine loans. The \$9.0 million increase in nonaccrual commercial and construction loans included: five business relationships secured by real estate amounting to \$6.2 million; and other three loans amounting to \$1.5 million granted to a construction company, for which real estate collateral was held for approximately 50% of the total debt and proceeds from specific assignments of construction contracts were sufficient to repay the remaining balance. As of December 31, 2007, all nonperforming loans mentioned above remained in nonaccrual status.

We believe all loans and leases, with which we have serious doubts as to collectibility, are classified within the category of nonperforming loans and leases and are appropriately reserved.

OREO consists of properties acquired by foreclosure or similar means and that management intends to offer for sale. Other repossessed assets are comprised of repossessed automobiles, boats and equipment subject to lease contracts. OREO and repossessed assets are initially recorded at the lower of net realizable value or book value. Any resulting loss is charged to the allowance for loan and lease losses. An appraisal of OREO and valuations of repossessed assets are made periodically after a property is acquired, and a comparison between the

appraised value and the carrying value is performed. Additional declines in value after acquisition, if any, are charged to current operations. Gains or losses on disposition of OREO and repossessed assets, and related operating income and maintenance expenses, are included in current operations.

As of December 31, 2007, our OREO consisted of 45 properties with an aggregate value of \$8.1 million, compared to 18 properties with an aggregate value of \$3.6 million as of December 31, 2006, and 13 properties with an aggregate value of \$1.5 million as of December 31, 2005. During 2007, we repossessed 29 properties with an aggregate value of \$5.4 million, of which eighteen were land lots in the amount of \$1.1 million belonging to one commercial customer, and sold 7 properties with an aggregate value of \$835,000. During 2006, we repossessed 22 properties with an aggregate value of \$6.1 million and sold 12 properties with an aggregate value of \$4.0 million.

Other repossessed assets as of December 31, 2007 were \$5.4 million, compared to \$9.4 million and \$8.0 million as of December 31, 2006 and 2005, respectively. As of December 31, 2007, 2006 and 2005, other repossessed assets were comprised of: repossessed vehicles amounting to \$4.3 million, \$8.3 million and \$6.2 million, respectively; repossessed boats amounting to \$991,000, \$1.1 million and \$1.5 million, respectively; and repossessed equipment amounting to \$88,000, \$39,000 and \$210,000, respectively. During 2007, the decrease in repossessed assets was mainly due to the net effect of: a decrease of \$4.0 million in repossessed vehicles, a decrease of \$94,000 in repossessed boats, and an increase of \$49,000 in repossessed equipment. The decrease in repossessed vehicles during 2007 was mainly attributable to our strategy of being more aggressive in the sale of repossessed vehicles, primary during the first and second quarter of 2007. As previously mentioned, this strategy resulted in a significant reduction in the number of repossessed vehicles in inventory. This is the fifth quarter in a row in which the number of repossessed vehicles sold exceeded the number of units repossessed. The number of repossessed vehicles in inventory as of December 31, 2007 decreased to 325 units, or by approximately 42%, from 564 units as of December 31, 2006, after increasing by 27.02%, from 444 units as of December 31, 2005. Total repossessed and sold vehicles during 2007 were 1,616 and 1,855, respectively, compared to 1,865 and 1,708 in 2006, and to 1,397 and 1,121 in 2005.

During 2006, the increase in repossessed assets was mainly due to the net effect of: an increase of \$2.1 million in repossessed vehicles, and a decrease of \$444,000 and \$171,000 in repossessed boats and equipment, respectively. The increase in repossessed assets during 2006 was mainly due to the deterioration of our lease portfolio. However, even though the number of repossessed vehicles in 2006 increased when compared to 2005, the net increase during 2006, in term of units, was lower as sales of repossessed assets also increased for 2006 as compared to 2005, as previously mentioned.

We continue monitoring the inventory of repossessed vehicles very closely and taking measures to expedite its disposition.

The ratio of nonperforming assets as a percentage of total loans and leases plus repossessed property (OREO and other repossessed assets) increased to 5.96% as of December 31, 2007, from 3.57% and 2.89% as of December 31, 2006 and 2005, respectively.

Allowance for Loan and Lease Losses

We have established an allowance for loan and lease losses to provide for loans and leases in our portfolio that may not be repaid in their entirety. The allowance is based on our regular, monthly assessments of the probable estimated losses inherent in the loan and lease portfolio. Our methodology for measuring the appropriate level of the allowance relies on several key elements, as discussed below, and specific allowances for identified problem loans and portfolio segments.

When analyzing the adequacy of our allowance, our portfolio is segmented into major loan categories. Although the evaluation of the adequacy of our allowance focuses on loans and leases and pools of similar loans and leases, no part of our allowance is segregated for, or allocated to, any particular asset or group of assets. Our allowance is available to absorb all credit losses inherent in our portfolio.

Each component would normally have similar characteristics, such as classification, type of loan or lease, industry or collateral. As needed, we separately analyze the following components of our portfolio and provide for them in our allowance:

- credit quality;
- sufficiency of credit and collateral documentation;
- proper lien perfection;
- appropriate approval by the loan officer and the loan committees;
- adherence to any loan agreement covenants; and
- compliance with internal policies and procedures and laws and regulations.

The general portion of our allowance is calculated by applying loss factors to all categories of loans and leases outstanding in our portfolio. We use historic loss rates determined over a period of 1 to 5 years, which, at least on an annual basis, are adjusted to reflect any current conditions that are expected to result in loss recognition.

The resulting loss factors are then multiplied against the current period's balance of loans outstanding to derive an estimated loss. Rates for each pool are based on those factors management believes are applicable to that pool. When applied to a pool of loans or leases, the adjusted historical loss rate is a measure of the total inherent losses in the portfolio that would have been estimated if each individual loan or lease had been reviewed.

In addition, another component is used in the evaluation of the adequacy of the allowance. This additional component serves as a management tool to measure the probable effect that current internal and external environmental factors could have on the historical loss factors currently in use. Factors that we consider include, but are not limited to:

- effects of any changes in lending policies and procedures, including those for underwriting, collection, charge-offs, and recoveries;
- changes in the experience, ability and depth of our lending management and staff;
- concentrations of credit that might affect loss experience across one or more components of the portfolio;
- levels of, and trends in, delinquencies and nonaccruals; and
- national and local economic business trends and conditions.

On a quarterly basis, a risk percentage is assigned to each environmental factor based on our judgment of the implied risk over each loan category. The result of our assumptions is then applied to the current period's balance of loans outstanding to derive the probable effect these current internal and external environmental factors could have over the general portion of our allowance. The net allowance resulting from this procedure is included as an additional component in the evaluation of the adequacy of our allowance.

In addition to our general portfolio allowances, specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate a high probability that a loss will be incurred. This amount is determined following a consistent procedural discipline in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS No. 114"), as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*.

Through periodic management review at branch and executive level and utilization of internal delinquency processes, both portfolios and individual loans and leases are monitored on an ongoing basis. When considered appropriate, a specific allowance will be considered on individual loan or lease accounts. A review is generally conducted of all the conditions surrounding any particular account such as the borrower's character, existing and potential financial condition, realizable value of collateral, prospects for additional collateral and payment record. As a result, the loss potential is determined and specific allowances may be established, which will vary depending on the analysis.

As mentioned above, our methodology for the determination of the adequacy of the allowance for loan and lease losses for impaired loans is based on classifications of loans and leases into various categories and the

application of SFAS No. 114, as amended. As explained before, for non-classified loans, the estimated allowance is based on historical loss experiences as adjusted for changes in trends and conditions on at least an annual basis. In addition, on a quarterly basis, the estimated allowance for non-classified loans is adjusted for the probable effect that current environmental factors could have on the historical loss factors currently in use. While our allowance for loan and lease losses is established in different portfolio components, we maintain an allowance that we believe is sufficient to absorb all credit losses inherent in our portfolio.

Although our management believes that the allowance for loan and lease losses is adequate to absorb probable losses on existing loans and leases that may become uncollectible, there can be no assurance that our allowance will prove sufficient to cover actual loan and lease losses in the future. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of our allowance for loan and lease losses. Such agencies may require us to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examinations.

The table below summarizes, for the periods indicated, loan and lease balances at the end of each period, the daily average balances during the period, changes in the allowance for loan and lease losses arising from loans and leases charged-off, recoveries on loans and leases previously charged-off, and additions to the allowance, and certain ratios related to the allowance for loan and lease losses:

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Average total loans and leases outstanding during period	\$1,804,099	\$1,663,330	\$1,487,850	\$1,217,723	\$842,033
Total loans and leases outstanding at end of period, including loans held for sale	1,858,579	1,750,838	1,577,196	1,387,613	899,392
Allowance for loan and lease losses:					
Allowance at beginning of period	18,937	18,188	19,039	9,394	6,918
Charge-offs:					
Real estate — secured	372	685	—	5	—
Commercial and industrial	3,122	3,050	4,848	3,329	966
Consumer	1,699	1,978	2,600	1,196	1,347
Leases	12,680	12,927	8,991	5,806	2,715
Other loans	398	149	150	164	37
Total charge-offs	18,271	18,789	16,589	10,500	5,065
Recoveries:					
Real estate — secured	52	11	—	—	—
Commercial and industrial	319	534	486	154	160
Consumer	319	465	256	233	254
Leases	1,410	1,604	2,210	1,741	675
Other loans	23	21	11	15	1
Total recoveries	2,123	2,635	2,963	2,143	1,090
Net loan and lease charge-offs	16,148	16,154	13,626	8,357	3,975
Provision for loan and lease losses	25,348	16,903	12,775	7,100	6,451
Allowance of acquired bank — BankTrust (2004)	—	—	—	10,902	—
Allowance at end of period	\$28,137	\$18,937	\$18,188	\$19,039	\$9,394
Ratios:					
Net loan and lease charge-offs to average total loans	.90%	0.97%	0.92%	0.69%	0.47%
Allowance for loan and lease losses to total loans at end of period	1.51	1.08	1.15	1.37	1.04
Net loan and lease charge-offs to allowance for loan losses at end of period	57.39	85.30	74.92	43.89	42.31
Net loan and lease charge-offs to provision for loan and lease losses	63.71	95.57	106.66	117.70	61.62

The allowance for loan and lease losses increased by 48.6%, or \$9.2 million, to \$28.1 million as of December 31, 2007, after increasing by 4.1%, or \$749,000, to \$18.9 million in 2006, from \$18.2 million in 2005. The allowance for loan and lease losses as a percentage of total loans and leases increased to 1.51% at the end of year 2007, from 1.08% in 2006, and 1.15% in 2005. The allowance for loan and lease losses is affected by net charge-offs, loan portfolio growth, and also by the provision for loan and lease losses for each related period, which, during 2007, was certainly impacted by the overall economic conditions. The increase in the allowance for loan and lease losses during 2007 was mainly caused by three business relationships, which became impaired during the third

quarter of 2007 and required a specific allowance of \$4.5 million, as previously mentioned. During 2006, the increase in the allowance for loans and lease losses was mainly related the loss trends in our leasing portfolio, as explained further below, and the growth in our loan portfolio. The loan portfolio growth during 2007 and 2006 was mostly concentrated in commercial loans secured by real estate, on which the loss of risk is lesser than in the other loan categories. We consider that the allowance for loan and lease losses is adequate to absorb probable losses in the portfolio.

On a quarterly basis, we have the practice of effecting partial charge-offs on all lease finance contracts that are over 120 days past due. This is done based on our historical lease loss experience during the previous calendar year. Accordingly, all lease finance contracts that are over 120 days past due at the end of each quarter are partially charged-off. For each of the years ended December 31, 2007, 2006 and 2005, we used a historical loss ratio in lease finance contracts of approximately 23%, 20% and 15%, respectively. For the years ended December 31, 2007, 2006 and 2005, approximately \$1.8 million, \$2.5 million and \$1.6 million was charged-off for this purpose, respectively.

Also, except for leases in a payment plan, bankruptcy or other legal proceedings, we have the practice of charging-off most of our lease finance contracts that were over 365 days past due. This full charge-off is made on a quarterly basis. Accordingly, most of our lease finance contracts that are over 365 days past due at the end of each quarter are fully charged-off. For the years ended December 31, 2007, 2006 and 2005, approximately \$838,000, \$781,000 and \$1.3 million was charged-off for this purpose, respectively.

We monitor the ratio of net charge-offs on the leasing business to the average balance of our leasing portfolio. The net charge-off ratio on the leasing business was 2.71%, 2.40% and 1.81% for the years ended December 31, 2007, 2006 and 2005, respectively. The increase in the net charge-off ratio on the leases business during 2007 was mainly due to the decrease in our lease portfolio. However, for 2007, the amount of net charge-offs in our leasing portfolio remained stable when compared to the year ended December 31, 2006. During 2006, the increase in the net charge-off ratio on the leases business was mainly due to the combined effect of portfolio deterioration and a decrease in our lease portfolio. Our lease portfolio decreased to \$385.4 million as of December 31, 2007, from \$443.3 million as of December 31, 2006, and from \$487.9 million at the end of fiscal year 2005. Net charge-offs in our leasing portfolio remaining at \$11.3 million for the year ended December 31, 2007 when compared to the year ended December 31, 2006, after increasing from \$6.8 million for the year ended December 31, 2005. We have been closely monitoring the lease portfolio and have tightened underwriting standards in an attempt to reduce possible future losses, as previously mentioned.

Net charge-offs as a percentage of average loans was 0.90%, 0.97% and 0.92% for the years 2007, 2006 and 2005, respectively. The decrease in this ratio during 2007 was mainly attributable to the decrease in our inventory of repossessed vehicles, as previously mentioned. During 2006, the increase in this ratio was mainly due to an increase in net charge-offs from our leasing portfolio, as further explained below.

Net charge-offs as a percentage of provision for loan and lease losses decreased to 63.7% as of December 31, 2007, from 95.6% in 2006, and from 106.7% in 2005. The decrease in this ratio during 2007 was mainly attributable to the increase in our provision for loan and lease losses to account for: i) the specific allowance required by three commercial business relationships, which became impaired during the third quarter of 2007, as previously mentioned; and ii) a deterioration in the overall economic conditions, as previously mentioned. During 2006, the decrease in this ratio was mainly a result of the increase in our provision for loan and lease losses to account for the loss trends in our leasing portfolio.

Net charge-offs were \$16.1 million for the year ended December 31, 2007, compared to \$16.2 million in 2006, and \$13.6 million in 2005.

The change in net charge-offs for the year ended December 31, 2007, when compared to year ended December 31, 2006, resulted from: (i) a \$354,000 decrease in net charge-offs from loans secured by real estate; (ii) \$287,000 increase in net charge-offs from other commercial and industrial loans; (iii) \$133,000 decrease in net charge-offs from consumer loans; (iv) a \$53,000 decrease in net charge-offs from our leasing portfolio; and (v) a \$247,000 increase in net charge-offs from overdrafts.

The increase in net charge-offs for the year ended December 31, 2006, when compared to year ended December 31, 2005, resulted mainly from: (i) a \$4.5 million increase in net charge-offs from our leasing portfolio; (ii) a \$1.8 million decrease in net charge-offs from other commercial and industrial loans; (iii) a \$831,000 decrease in net charge-offs from consumer loans; and (iv) a \$674,000 increase in net charge-offs from real estate secured loans. The increase in net charge-offs from our leasing portfolio was mainly attributable to the increase in the

volume of repossessed assets, as explained before, and also to an increase in the initial market valuation of repossessed vehicles at the time of repossession, reducing the book value of repossessed vehicles.

Net charge offs as a percentage of our year end portfolio balance, or "net loss experience," has averaged 1.03% for our commercial loan portfolio that is not secured by real estate over the past five years. As previously mentioned, our historical losses through the years from our commercial loan portfolio secured by real estate have been low. However, because a significant portion of our business is focused on commercial lending, we have generally maintained a conservative allowance for our commercial loan portfolio. For the portion of our commercial loan portfolio adequately secured with real estate collateral, we maintain an allowance equal to 0.12% of the outstanding balance of such portfolio. The allowance for commercial loans that are not secured by real estate is equal to 4.22% of the outstanding portfolio balance.

Our consumer loan portfolio, excluding boat financing, has averaged a 3.55% net loss experience over the past five years. This is partially attributable to the fact that, in connection with our acquisitions of other banks, additional charge-offs have been recorded and additional allowances have been built into the transaction pricing to compensate for future losses. For our consumer loan portfolio, excluding boat financing, we maintain an allowance equal to 3.24% of the outstanding balance of such portfolio.

Our five-year old construction loan portfolio has no loss experience. Nevertheless, we maintain an allowance for this portfolio equal to 0.62% of the portfolio balance.

Our leasing portfolio has a 2.92% net loss experience over the last year. We maintain an allowance equal to 2.86% of the balance of this portfolio.

Our boat financing portfolio has a 1.76% net loss experience over the past four years. We maintain an allowance equal to 2.17% of the balance of this portfolio.

Although our mortgage portfolio has no loss experience, we maintain an allowance equal to 0.29% of this portfolio.

The table below presents an allocation for the allowance for loan and lease losses among the various loan categories and sets forth the percentage of loans and leases in each category to gross loans or leases. The allocation of the allowance for loan and lease losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions:

	As of December 31,									
	2007		2006		2005		2004		2003	
	Amt.	Loan Category to Gross Loans ⁽¹⁾	Amt.	Loan Category to Gross Loans ⁽¹⁾	Amt.	Loan Category to Gross Loans ⁽¹⁾	Amt.	Loan Category to Gross Loans ⁽¹⁾	Amt.	Loan Category to Gross Loans ⁽¹⁾
(Dollars in thousands)										
Allocated:										
Real estate — construction.....	\$ 1,263	10.96%	\$ 610	7.23%	\$ 714	5.25%	\$ 1,200	5.75%	\$ 464	5.32%
Real estate — secured	1,301	48.49	525	46.60	1,137	41.92	1,997	37.44	1,212	35.69
Commercial and industrial	12,760	16.30	4,836	17.03	4,597	17.34	6,470	17.66	4,067	20.01
Consumer.....	1,520	3.11	1,433	3.47	1,499	4.08	3,239	5.42	750	2.99
Leases	11,041	20.77	11,089	25.38	9,701	31.07	3,815	33.29	1,950	35.51
Other loans.....	252	0.37	436	0.29	212	0.34	134	0.44	21	0.48
Unallocated.....	—	—	8	—	328	—	2,184	—	930	—
Total allowance for loan and lease losses.....	\$ 28,137	100.00%	\$ 18,937	100.00%	\$ 18,188	100.00%	\$ 19,039	100.00%	\$ 9,394	100.00%

(1) Excludes mortgage loans held-for-sale.

Nonearning Assets

Premises, leasehold improvements and equipment, net of accumulated depreciation and amortization, totaled \$33.1 million as of December 31, 2007, compared to \$14.9 million and \$11.2 million at the end of year 2006 and 2005, respectively. The increase in nonearning assets during 2007 was primarily attributable to the purchase of land and an office building to serve as our new headquarters, as explained further below.

On February 6, 2007, Eurobank, our wholly owned banking subsidiary, closed on the purchase of land and an office building to serve as our new headquarters. The property, which is located in San Juan, includes a 57,187 square foot office building that consolidates our headquarters, administrative operations, and our leasing division. The purchase price for the property was \$12,360,000. By December 2007, we had completed moving our headquarters, our leasing division, and almost all administrative departments to the new building. As of December 31, 2007, office building improvements amounted to \$2.9 million. We anticipate that there may be a benefit from certain efficiencies associated with centralizing these operations in one location.

In addition, as of December 31, 2007, Eurobank had three land lots amounting to \$1.4 million, of which one lot valued at \$851,000 was purchased in April 2006 for future branch development, and the other two had an aggregate value of \$549,000 and were purchased in December 2007 for future expansion of our headquarters.

Except for aforementioned acquisition, we have no definitive agreements regarding acquisition or disposition of owned or leased facilities and, for the near-term future, we do not expect significant changes in our total occupancy expense.

Deposits

Deposits are our primary source of funds. Average deposits for the years ended December 31, 2007, 2006 and 2005 were \$1.893 billion, \$1.739 billion and \$1.505 billion, respectively. Average deposits grew by \$154.7 million, or by 8.9%, in 2007, and by \$234.0 million, or 15.6%, in 2006. The increase in average deposits for 2007 and 2006 was mainly concentrated in broker deposits. The following table sets forth, for the periods indicated, the distribution of our average deposit account balances and average cost of funds on each category of deposits:

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Percent of Deposits	Average Rate	Average Balance	Percent of Deposits	Average Rate	Average Balance	Percent of Deposits	Average Rate
(Dollars in thousands)									
Noninterest-bearing demand deposits	\$119,004	6.29%	—%	\$128,551	7.39%	—%	\$129,676	8.62%	—%
Money market deposits	18,361	0.97	2.90	25,470	1.46	2.29	51,787	3.44	2.10
NOW deposits	47,068	2.49	2.23	46,330	2.66	2.23	46,421	3.09	1.85
Savings deposits	141,120	7.45	2.48	184,824	10.63	2.37	254,923	16.94	2.30
Time certificates of deposit in denominations of \$100,000 or more	236,057	12.47	5.01	205,510	11.82	4.30	202,099	13.43	3.24
Broker certificates of deposits in denominations of \$100,000 or more	1,239,885	65.49	5.13	1,034,893	59.54	4.78	666,955	44.33	3.87
Other time deposits	91,887	4.85	4.37	113,097	6.50	3.70	152,787	10.15	3.10
Total deposits	<u>\$1,836,382</u>	<u>100.00%</u>		<u>\$1,738,675</u>	<u>100.00%</u>		<u>\$1,504,648</u>	<u>100.00%</u>	

Total deposits as of December 31, 2007, 2006 and 2005 were \$1.993 billion, \$1.905 billion and \$1.734 billion, respectively, representing an increase of \$87.7 million, or 4.60%, in 2007 and \$171.2 million, or 9.87%, in 2006. The following table presents the composition of our deposits by category as of the dates indicated:

	As of December 31,		
	2007	2006	2005
	(In thousands)		
Interest bearing deposits:			
Now and money market	\$ 60,893	\$ 62,673	\$ 70,962
Savings	131,604	156,069	223,665
Broker certificates of deposits in denominations of less than \$100,000	104	707	2,972
Broker certificates of deposits in denominations of \$100,000 or more	1,336,456	1,225,449	964,233
Time certificates of deposits in denominations of \$100,000 or more	251,361	224,741	203,708
Other time deposits in denominations of less than \$100,000 and IRAs	92,545	95,396	121,950
Total interest bearing deposits	\$ 1,872,963	\$ 1,765,035	\$ 1,587,490
Plus: non interest bearing deposits	120,083	140,321	146,638
Total deposits	\$ 1,993,046	\$ 1,905,356	\$ 1,734,128

As mentioned before, in addition to the deposits we generate locally, we have also accepted broker deposits to augment retail deposits and to fund asset growth. The decrease in now and money market accounts, savings accounts, and other time deposits in denominations of less than \$100,000 was mainly due to the fierce competition for core deposits on the Island due to a reduction of local funding sources. This fierce competition for local deposits has made broker deposits an attractive alternative, resulting in lower funding costs when compared to the usually higher rates offered locally for time deposits. Also, as previously mentioned, we decided to pursue the use of broker deposits alternative in an attempt to control the continuous increase in our funding cost. Because broker deposits are generally more volatile and interest rate sensitive than other sources of funds, management closely monitors growth in this category.

The following table sets forth the amount and maturities of the time deposits of \$100,000 or more as of the dates indicated, excluding individual retirement accounts:

	As of December 31,		
	2007	2006	2005
	(In thousands)		
Three months or less	\$360,168	\$547,837	\$421,582
Over three months through six months	318,440	294,784	250,982
Over six months through 12 months	195,976	188,691	184,880
Over 12 months	713,233	418,878	310,497
Total	\$1,587,817	\$1,450,190	\$1,167,941

Other Sources of Funds

Securities Sold Under Agreements to Repurchase

To support our asset base, we sell securities subject to obligations to repurchase to securities dealers and the FHLB. These repurchase transactions generally have maturities of one month to less than five years. The following table summarizes certain information with respect to securities under agreements to repurchase for fiscal years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Balance at period-end	\$496,419	\$365,664	\$419,860
Average monthly aggregate balance outstanding during the period	372,935	432,459	489,110
Maximum aggregate balance outstanding at any month-end	496,419	501,182	614,650
Weighted average interest rate for the year	5.04%	4.94%	3.33%
Weighted average interest rate for the last month of the year	4.60%	5.27%	4.25%

FHLB Advances

Although deposits and repurchase agreements are the primary source of funds for our lending and investment activities and for general business purposes, we may obtain advances from the Federal Home Loan Bank of New York as an alternative source of liquidity. The following table provides a summary of FHLB advances for fiscal years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Balance at period-end	\$30,454	\$8,707	\$8,759
Average balance during the period	3,668	19,016	10,059
Maximum amount outstanding at any month-end	30,454	121,292	10,404
Weighted average interest rate for the year	5.26%	5.06%	4.93%
Weighted average interest rate for the last month of the year	4.64%	5.51%	5.37%

Notes Payable to Statutory Trusts

For more detail on notes payable to statutory trusts please refer to the business section of this Annual Report on Form 10-K captioned "Eurobank Statutory Trust I and II" and the "Note 16 – Notes Payable to Statutory Trusts" to our consolidated financial statements.

Capital Resources and Capital Adequacy Requirements

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger regulatory actions that could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that rely on quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

We monitor compliance with bank regulatory capital requirements, focusing primarily on the risk-based capital guidelines. Under the risk-based capital method of capital measurement, the ratio computed is dependent on the amount and composition of assets recorded on the balance sheet and the amount and composition of off-balance sheet items, in addition to the level of capital. Generally, Tier 1 capital includes: common stockholders' equity, our Series A Preferred Stock, our junior subordinated debentures (subject to certain limitations), less goodwill. Total capital represents Tier 1 plus the allowance for loan and lease losses (subject to certain limits).

In the past three years, our primary source of capital have been internally generated operating income through retained earnings. As of December 31, 2007, 2006 and 2005, total stockholders' equity was \$179.9 million, \$169.9 million and \$165.5 million, respectively. In addition, the following items also impacted our stockholders' equity:

- During 2007, a total of 254,862 stock options were exercised for the aggregate exercise price of \$1.1 million, as follows: 250,862 on February 23, 2007 at an aggregate exercise price of \$1.1 million; and 4,000 stock options on July 10, 2007 at an aggregate exercise price of \$20,000.
- Between the second and third quarter of 2007, we repurchased 285,368 shares for \$2.5 million in connection with a stock repurchase program approved by the Board of Directors in May 2007, which was completed in September 2007.
- In an effort to improve our net interest margin, on December 18, 2006, we redeemed \$25.8 million of floating rate junior subordinated deferrable interest debentures bearing an interest rate of 8.99% at the time of redemption, upon which Eurobank Statutory Trust I, one of our non-banking subsidiaries, redeemed \$25.0 million in trust preferred securities. Up to December 18, 2006, we included these trust-preferred securities as part of our tier 1 capital. We believe that remaining supplemental capital raised in connection with the issuance of trust preferred securities from Eurobank Statutory Trust II will allow us to achieve and maintain our status as a well-capitalized institution and to sustain our continued loan growth. For more detail on notes payable to statutory trusts please refer to "Note 16 – Notes Payable to Statutory Trusts" to our consolidated financial statements.
- During 2006, a total of 213,450 options were exercised for the aggregate exercise price of \$879,765, as follows: 7,000 options on September 13, 2006 at an aggregate exercise price of \$44,390; 56,450 options on June 30, 2006 at an aggregate exercise price of \$336,625; and 150,000 options on February 27, 2006 at an aggregate exercise price of \$498,750.
- During 2006 and 2005, we repurchased 488,477 shares for \$5.5 million and 163,550 shares for \$1.9 million, respectively, upon a stock repurchase program approved by our board of directors in October 2005, respectively, which expired in October 2006.
- On November, 18, 2005, we recorded 1,688 for \$22,000 shares as treasury stock as a result of a payment in lieu of foreclosure from a former borrower.

We are not aware of any material trends that could materially affect our capital resources other than those described in the section entitled "Risk Factors," in this Annual Report on Form 10-K.

As of December 31, 2007, we and Eurobank both qualified as "well-capitalized" institutions under the regulatory framework for prompt corrective action. However, if our capital ratios fall below the levels necessary to be considered "well-capitalized" under current regulatory guidelines, we could be restricted in using broker deposits as a short-term funding source. The following table presents the regulatory standards for well-capitalized institutions, compared to our capital ratios for Eurobank as of the dates specified:

	<u>Actual</u>		<u>For Minimum Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provision</u>	
	<u>Amount Is</u>	<u>Ratio Is</u>	<u>Amount Must Be</u>	<u>Ratio Must Be</u>	<u>Amount Must Be</u>	<u>Ratio Must Be</u>
(Dollars in thousands)						
As of December 31, 2007:						
Total Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	\$ 224,873	10.79%	≥ \$ 166,720	≥ 8.00%	N/A	
Eurobank.....	224,137	10.76	≥ 166,719	≥ 8.00	≥ 208,399	≥ 10.00%
Tier 1 Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	198,793	9.54	≥ 83,360	≥ 4.00	N/A	
Eurobank.....	198,057	9.50	≥ 83,360	≥ 4.00	≥ 125,039	≥ 6.00
Leverage (to average assets)						
EuroBancshares, Inc.....	198,793	7.55	≥ 105,308	≥ 4.00	N/A	
Eurobank.....	198,057	7.52	≥ 105,282	≥ 4.00	≥ 131,603	≥ 5.00
As of December 31, 2006:						
Total Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	\$ 216,673	11.25%	≥ \$154,038	≥ 8.00%	N/A	
Eurobank.....	198,179	10.29	≥ 154,045	≥ 8.00	≥ 192,556	≥ 10.00%
Tier 1 Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	197,366	10.25	≥ 77,019	≥ 4.00	N/A	
Eurobank.....	178,871	9.29	≥ 77,023	≥ 4.00	≥ 115,534	≥ 6.00
Leverage (to average assets)						
EuroBancshares, Inc.....	197,366	7.92	≥ 99,679	≥ 4.00	N/A	
Eurobank.....	178,871	7.18	≥ 99,637	≥ 4.00	≥ 124,546	≥ 5.00
As of December 31, 2005:						
Total Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	\$ 238,570	13.49%	≥ \$ 141,479	≥ 8.00%	N/A	
Eurobank.....	190,070	10.72	≥ 141,836	≥ 8.00	≥ 177,295	≥ 10.00%
Tier 1 Capital (to Risk Weighted Assets)						
EuroBancshares, Inc.....	220,157	12.45	≥ 70,740	≥ 4.00	N/A	
Eurobank.....	151,657	8.55	≥ 70,918	≥ 4.00	≥ 106,377	≥ 6.00
Leverage (to average assets)						
EuroBancshares, Inc.....	220,157	9.35	≥ 94,199	≥ 4.00	N/A	
Eurobank.....	151,657	6.44	≥ 94,172	≥ 4.00	≥ 117,714	≥ 5.00

Liquidity Management

Maintenance of adequate core liquidity requires that sufficient resources be available at all times to meet our cash flow requirements. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of investment opportunities as they arise. Liquidity management involves our ability to convert assets into cash or cash equivalents without incurring significant loss, and to raise cash or maintain funds without incurring excessive additional cost. For this purpose, the bank chose to maintain a minimum target liquidity referred as "Core Basis Surplus" and defined as the portion of the bank's funds maintained in short term investments and other marketable assets, less the liabilities' portions secured by any of these assets to cover a portion of time deposits maturing in 30 days and a portion of the non-maturity deposits, expressed as a percentage of total assets. This Core Basis Surplus number generally should be positive, but it may vary as our Asset and Liability Committee decides to maintain relatively large or small liquidity coverage, depending on its estimates of the general business climate, its expectations regarding the future course of interest rates in the near term, and the bank's current financial position. Two additional factors that will impact the magnitude of the Core Basic Surplus target are: 1) the available borrowing capacity at the Federal Home Loan Bank (FHLB), as represented by qualifying loans on the balance sheet, and 2) unused brokered time deposits' capacity relative to the bank's related policy limit on acceptable levels of these deposits. For this reason, current FHLB advances and broker time deposits availability are part of the bank's liquidity presentation. Our liquid assets at December 31, 2007, 2006 and 2005 totaled approximately \$239.8 million, \$300.4 million and \$318.5 million, respectively. Our Core Basis Surplus liquidity level was 5.7%, 8.9% and 10.1% as of the same periods, respectively. As of December 31, 2006, our Core Basic Surplus was impacted by an increase in interest bearing deposits and short-term investments in connection with the approximately \$50.1 million in FHLB and FNMA debt securities we sold during that month. The funds generated through this sale of securities were used to finance a portion of the loans origination during 2007. The decrease in our Core Basic Surplus liquidity level indicated above was mainly attributable to the reduction in interest-bearing deposits and short-term investments previously

mentioned, and that the growth in the investment portfolio was funded mostly with repurchase agreements and other collateralized borrowings reducing the portion of unpledged securities to total assets compared to December 31, 2006.

As mentioned above, in addition to the normal influx of liquidity from core deposit growth, together with repayments and maturities of loans and investments, we utilize FHLB advances and broker and out-of-market certificates of deposit to meet our liquidity needs. Other funding alternatives are borrowing lines with brokers and the Federal Reserve Bank of New York, and unsecured lines of credit with correspondent banks.

Advances from the FHLB are typically secured by qualified residential and commercial mortgage loans, and investment securities. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness. As of December 31, 2007, we had FHLB borrowing capacity of \$21.4 million, including FHLB advances and securities sold under agreements to repurchase. Also, as of the same date, we had \$376.0 million in pre-approved repurchase agreements with major brokers and banks, subject to acceptable unpledged marketable securities available for sale. In addition, Eurobank is able to borrow up to \$10.0 million from the Federal Reserve Bank using securities currently pledge as collateral. Eurobank also maintains pre-approved overnight borrowing lines with correspondent banks, which provided additional short-term borrowing capacity of \$10.0 million at December 31, 2007.

In order to participate in the broker time deposits market, we must be categorized as "well capitalized" under the regulatory framework for prompt corrective action unless we obtain a waiver from the Federal Deposit Insurance Corporation. Restrictions on our ability to participate in this market could place limitations on our growth strategy or could result in our participation in other more expensive funding sources. In case of restrictions, our expansion strategies would have to be reviewed to reflect the possible limitation to funding sources and changes in cost structures. As of December 31, 2007, we and Eurobank both qualified as "well-capitalized" institutions under the regulatory framework for prompt corrective action.

Our minimum target Core Basis Surplus liquidity ratio established in our Asset/Liability Management Policy is 2.0%. Our liquidity demands are not seasonal and all trends have been stable over the last three years. We are not aware of any trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to materially impair our liquidity. Generally, financial institutions determine their target liquidity ratios internally, based on the composition of their liquidity assets and their ability to participate in different funding markets that can provide the required liquidity. In addition, the local market has unique characteristics, which make it very difficult to compare our liquidity needs and sources to the liquidity needs and sources of our peers in the rest of the nation. After careful analysis of the diversity of liquidity sources available to us, our asset quality and the historic stability of our core deposits, we have determined that our target liquidity ratio is adequate.

Our net cash inflows from operating activities for 2007 were \$34.0 million, compared to cash inflows of \$56.3 million and \$44.1 million from operating activities for the year 2006 and 2005, respectively. The net operating cash inflows during 2007 and 2005 resulted primarily from the net effect of: i) proceeds from sale of loans held for sale; ii) an increase in accrued interest receivable; iii) an increase in accrued interest payable, accrued expenses and other liabilities; and iv) a net increase in other assets. During 2006, the net operating cash inflows resulted primarily from the net effect of: i) proceeds from sale of loans held for sale; ii) an increase in accrued interest receivable; iii) an increase in accrued interest payable, accrued expenses and other liabilities; and iv) a net decrease in other assets.

Our net cash outflows from investing activities for the years 2007, 2006 and 2005 were \$281.7 million, \$137.7 million and \$319.6 million, respectively. The net investing cash outflows experienced in 2007 were primarily used for the growth in our investment and loan portfolios. During 2006, the net investing cash outflows experienced were primarily used for the growth in our loan portfolio. The higher net investing cash outflows experienced in 2005 were primarily due to growth in the investment securities portfolio, which provided additional collateral in that year to support wholesale funding increases and a growth in our loan and lease portfolio.

Our net cash inflows from financing activities for the years 2007, 2006 and 2005 were \$238.1 million, \$86.0 million and \$277.9 million, respectively. The net financing cash inflows experienced in 2007 were primarily provided by a net increase in deposits and securities sold under agreement to repurchase and other borrowing. During 2006 and 2005, the net financing cash inflows were primarily provided by a net increase in deposits.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services since such prices are affected by inflation.

Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk is the most significant market risk affecting us. Other types of market risk, such as foreign currency risk and commodity price risk, do not arise in the normal course of our business activities. Interest rate risk can be defined as the exposure to a movement in interest rates that could have an adverse effect on our net interest income or the market value of our financial instruments. The ongoing monitoring and management of this risk is an important component of our asset and liability management process, which is governed by policies established by Eurobank's Board of Directors and carried out by Eurobank's Asset/Liability Management Committee. The Asset/Liability Management Committee's objectives are to manage our exposure to interest rate risk over both the one year planning cycle and the longer term strategic horizon and, at the same time, to provide a stable and steadily increasing flow of net interest income. Interest rate risk management activities include establishing guidelines for tenor and repricing characteristics of new business flow, the maturity ladder of wholesale funding, investment security purchase and sale strategies and mortgage loan sales, as well as derivative financial instruments. Eurobank may enter into interest rate swap agreements, in which it exchanges the periodic payments, based on a notional amount and agreed-upon fixed and variable interest rates. Also, Eurobank may use contracts to transform the interest rate characteristics of specifically identified assets or liabilities to which the contract is tied. At December 31, 2007, the Bank had interest rate swap agreements which converted \$28.4 million of fixed rate time deposits to variable rate time deposits of which \$10.3 million will mature in 2010 and 2013 and \$18.1 million with maturity between 2018 and 2023 but with semi-annual call options which match call options on the swaps. In addition, as of December 31, 2007, Eurobank had \$4.0 million related to an option and equity-based return derivative, which was purchased in January 2007 to fix the interest rate expense on a \$25.0 million certificate of deposit. For more detail on derivative financial instruments please refer to "Note 15 – Derivative Financial Instruments" to our condensed consolidated financial statements included herein.

Our primary measurement of interest rate risk is earnings at risk, which is determined through computerized simulation modeling. The primary simulation model assumes a static balance sheet, using the balances, rates, maturities and repricing characteristics of all of the bank's existing assets and liabilities, including off-balance sheet financial instruments. Net interest income is computed by the model assuming market rates remaining unchanged and compares those results to other interest rate scenarios with changes in the magnitude, timing and relationship between various interest rates. At December 31, 2007, we modeled rising ramp and declining interest rate simulations in 100 basis point increments over two years. The impact of embedded options in such products as callable and mortgage-backed securities, real estate mortgage loans and callable borrowings were considered. Changes in net interest income in the rising and declining rate scenarios are then measured against the net interest income in the rates unchanged scenario. The Asset/Liability Management Committee utilizes the results of the model to quantify the estimated exposure of net interest income to sustained interest rate changes and to understand the level of risk/volatility given a range of reasonable and plausible interest rate scenarios. In this context, the core interest rate risk analysis examines the balance sheet under rates up/down scenarios that are neither too modest nor too extreme. All rate changes are "ramped" over a 12 month horizon based upon a parallel yield curve shift and maintained at those levels over the remainder of the simulation horizon. Using this approach, we are able to obtain results that illustrate the effect that both a gradual change of rates (year 1) and a rate shock (year 2 and beyond) has on margin expectations.

In the December 31, 2007 simulation, our model indicated no material exposure in the level of net interest income to gradual rising rates "ramped" for the first 12-month period, and no exposure in the level of net interest income to a rate shock of rising rates for the second 12-month period. This is caused by the effect of the volume of our commercial and industrial loans variable rate portfolio and the maturity distribution of the repurchase agreements and broker deposits, our primary funding source, from 30 days to approximately 2 years. The hypothetical rate scenarios consider a change of 100 and 200 basis points during two years. The decreasing rate

scenarios have a floor of 200 basis points. At December 31, 2007, the net interest income at risk for year one in the 100 basis point falling rate scenario was calculated at \$609,000, or 0.82% lower than the net interest income in the rates unchanged scenario, and \$2.1 million, or 2.77% lower than the net interest income in the rates unchanged scenario at the December 31, 2007 simulation with a 200 basis point decrease. The net interest income at risk for year two in the 100 basis point falling rate scenario was calculated at \$4.6 million, or 6.24% higher than the net interest income in the rates unchanged scenario, and \$744,000, or 1.00%, higher than the net interest income in the rates unchanged scenario at the December 31, 2007 simulation with a 200 basis point decrease. At December 31, 2007, the net interest income at risk for year one in the 100 basis point rising rate scenario was calculated to be \$503,000, or 0.68% higher than the net interest income in the rates unchanged scenario, and \$292,000, or 0.39% higher than the net interest income in the rate unchanged scenario at the December 31, 2007 simulation with a 200 basis point increase. The net interest income at risk for year two in the 100 basis point rising rate scenario was calculated at \$3.1 million, or 4.13% higher than the net interest income in the rates unchanged scenario, and \$1.4 million, or 1.86% higher than the net interest income in the rates unchanged scenario at the December 31, 2007 simulation with a 200 basis point increase. These exposures are well within our policy guidelines of 15.0% and 25.0% for 100 and 200 basis points changes in rate scenarios, respectively. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan and security prepayments, deposit run-offs and pricing and reinvestment strategies and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may take in response to changes in interest rates. We cannot assure you that our actual net interest income would increase or decrease by the amounts computed by the simulations.

The following table indicates the estimated impact on net interest income under various interest rate scenarios as of December 31, 2007:

		Change in Future Net Interest Income Gradual Raising Rate Scenario – Year 1 At December 31, 2007	
<u>Change in Interest Rates</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
		(Dollars in thousands)	
+200 basis points over year 1.....		\$ 292	0.39%
+100 basis points over year 1.....		503	0.68
- 100 basis points over year 1.....		(609)	(0.82)
- 200 basis points over year 1.....		(2,059)	(2.77)

		Change in Future Net Interest Income Rate Shock Scenario – Year 2 At December 31, 2007	
<u>Change in Interest Rates</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
		(Dollars in thousands)	
+200 basis points over year 2.....		\$ 1,382	1.86%
+100 basis points over year 2.....		3,072	4.13
- 100 basis points over year 2.....		4,640	6.24
- 200 basis points over year 2.....		744	1.00

We also monitor core funding utilization in each interest rate scenario as well as market value of equity. These measures are used to evaluate long-term interest rate risk beyond the two-year planning horizon.

Aggregate Contractual Obligations

The following table represents our on and off-balance sheet aggregate contractual obligations, other than deposit liabilities, to make future payments to third parties as of the date specified:

As of December 31, 2007				
	<u>Less than One Year</u>	<u>Over One Year to Three Years</u>	<u>Over Three Years to Five Years</u>	<u>Over Five Years</u>
	(In thousands)			
FHLB advances.....	\$ 30,000	\$ —	\$ —	\$ 454
Notes payable to statutory trusts	—	—	—	20,619
Operating leases	1,742	3,138	2,779	16,145
Total	\$31,742	\$3,138	\$2,779	\$37,218

In addition, on February 6, 2007, Eurobank, our wholly owned banking subsidiary, closed on the purchase of land and an office building to serve as our new headquarters. The purchase price for the property was \$12,360,000.

Off-Balance Sheet Arrangements

During the ordinary course of business, we provide various forms of credit lines to meet the financing needs of our customers. These commitments, which have a term of less than one year, represent a credit risk and are not represented in any form on our balance sheets.

As of December 31, 2007, 2006 and 2005, we had commitments to extend credit of \$265.3 million, \$308.5 million and \$265.3 million, respectively. These commitments included standby letters of credit of \$13.6 million, \$8.4 million and \$7.0 million as of December 31, 2007, 2006 and 2005, respectively, and commercial letters of credit of \$1.5 million, \$916,000 and \$1.3 million for those same periods, respectively.

The effect on our revenues, expenses, cash flows and liquidity of the unused portions of these commitments cannot reasonably be predicted because there is no guarantee that the lines of credit will be used. For more information regarding our off-balance sheet arrangements, see "Note 26 — Financial Instruments with Off-Balance-Sheet Risk" to our consolidated financial statements.

Recent Accounting Pronouncements

For more detail on recent accounting pronouncements please refer to "Note 2(z) — Recently Issued Accounting Standards" to our consolidated financial statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Part II, Item 7 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data.

Quarterly Selected Financial Data (Unaudited)

The following tables summarize unaudited quarterly results of operations for years ended December 31, 2007, 2006 and 2005.

	Year ended December 31, 2007			
	Fourth quarter	Third quarter	Second quarter	First quarter
Interest income	\$ 44,327,194	\$ 43,734,653	\$ 42,949,603	\$ 42,313,742
Interest expense	28,084,689	26,624,695	25,507,208	25,253,744
Net interest income	16,242,505	17,109,958	17,442,395	17,059,998
Provision for loan and lease losses	6,881,000	9,594,000	3,594,000	5,279,000
Net interest income after provision for loan and lease losses	9,361,505	7,515,958	13,848,395	11,780,998
Total other income	2,410,272	2,212,540	2,132,675	1,922,710
Total other expenses	11,488,227	12,341,740	12,265,054	12,129,823
Income before income taxes	283,550	(2,613,242)	3,716,016	1,573,885
Income (benefit) tax	(218,428)	(1,378,559)	1,088,265	259,848
Net income (loss)	\$ 501,978	\$ (1,234,683)	\$ 2,627,751	\$ 1,314,037
Earnings (loss) per share:				
Basic	\$ 0.02	\$ (0.07)	\$ 0.13	\$ 0.06
Diluted	\$ 0.02	\$ (0.07)	\$ 0.12	\$ 0.06

Year ended December 31, 2006				
	Fourth quarter	Third quarter	Second quarter	First quarter
Interest income	\$ 42,699,853	\$ 41,895,851	\$ 39,767,141	\$ 37,782,974
Interest expense	26,898,186	25,315,546	22,750,837	20,398,777
Net interest income	15,801,667	16,580,305	17,016,304	17,384,197
Provision for loan and lease losses	5,274,000	4,849,000	3,390,000	3,390,000
Net interest income after provision for loan and lease losses	10,527,667	11,731,305	13,626,304	13,994,197
Total other income	1,109,307	1,778,375	2,546,822	2,366,049
Total other expenses	10,280,554	11,476,456	10,506,820	11,058,573
Income before income taxes	1,356,420	2,033,224	5,666,306	5,301,673
Income tax	1,347,299	514,732	2,386,467	2,035,487
Net income	\$ 9,121	\$ 1,518,492	\$ 3,279,839	\$ 3,266,186
(Loss) earnings per share:				
Basic	\$ (0.01)	\$ 0.07	\$ 0.16	\$ 0.16
Diluted	\$ (0.01)	\$ 0.07	\$ 0.16	\$ 0.15

Year ended December 31, 2005				
	Fourth quarter	Third quarter	Second quarter	First quarter
Interest income	\$ 36,832,404	\$ 34,713,785	\$ 31,889,460	\$ 29,796,832
Interest expense	19,143,116	17,622,676	14,684,896	13,485,061
Net interest income	17,689,288	17,091,109	17,204,564	16,311,771
Provision for loan and lease losses	6,435,000	3,015,000	2,075,000	1,250,000
Net interest income after provision for loan and lease losses	11,254,288	14,076,109	15,129,564	15,061,771
Total other income	1,794,212	2,467,971	2,566,147	900,802
Total other expenses	10,174,718	9,329,967	9,274,042	8,864,546
Income before income taxes	2,873,782	7,214,113	8,421,669	7,098,027
Income tax	1,200,410	2,417,003	3,127,004	2,332,811
Net income	\$ 1,673,372	\$ 4,797,110	\$ 5,294,665	\$ 4,765,216
Earnings per share:				
Basic	\$ 0.08	\$ 0.24	\$ 0.26	\$ 0.23
Diluted	\$ 0.07	\$ 0.23	\$ 0.25	\$ 0.23

The consolidated financial statements, the reports thereon, the notes thereto and supplementary data commence at page F-1 of this Annual Report on Form 10-K.

On December 19, 2007, the SEC issued final rules amending and streamlining reporting requirements for smaller reporting companies. These rules eliminate Regulation S-B for small reporting companies and integrate those provisions into Regulation S-K and Regulation S-X. Among other things, these new rules, which became effective on February 4, 2008, (i) created a new category of filer, the "smaller reporting company," which replaces the current "small business issuer" category; (ii) expanded the availability of scaled disclosure requirements to filers with a public float of less than \$75 million (or where no public float or market price exists, less than \$50 million in annual revenue); and (iii) moved the Regulation S-B reporting requirements to Regulation S-K and eliminate Regulation S-B and its various reporting forms, for example Form SB-2. In addition, these new rules allowed small reporting companies to choose the scaled reporting requirements on an à la carte basis, thereby permitting the company to choose its disclosure requirements on an item-by-item basis. While the Company has generally opted to continue its larger company disclosures consistent with past practices, in order to minimize the time, costs and expenses associated with obtaining the consent of its former auditors, the Company has elected to include two years of prior audited financial statement information consistent with the smaller reporting company requirements.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

a) Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2007, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our "disclosure controls and procedures," as such term is defined under Exchange Act Rule 13a-15(e). Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2007, such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, EuroBancshares' principal executives and principal financial officers and effected by EuroBancshares' Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of EuroBancshares;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of EuroBancshares are being made only in accordance with authorizations of management and directors of EuroBancshares; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of EuroBancshares' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2007, our management assessed the effectiveness of the design and operation of EuroBancshares' internal control over financial reporting. Based on this assessment, our management concluded that such internal control over financial reporting was effective. In making our assessment of internal control over financial reporting, management used the criteria established in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

EuroBancshares' independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K has issued an audit report on management's assessment of EuroBancshares' internal control over financial reporting.

(c) Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

(d) Report of Independent Registered Public Accounting Firm. The independent registered public accounting firm's attestation report on our internal control over financial reporting is included as part of the Report of Independent Registered Public Accounting Firm to our consolidated financial statements, commencing at page F-1 of this Annual Report on Form 10-K.

ITEM 9B. Other Information.

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The information under the captions "Proposal Regarding Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees. Our Code of Business Conduct and Ethics is publicly available on our website at <http://investor.eurobankpr.com>. If we make any substantive amendments to our Code of Business Conduct and Ethics or grant any waiver, including any implicit waiver, from a provision of the code to our principal executive officer, principal financial officer, principal accounting officer or controller, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K.

ITEM 11. Executive Compensation.

The information under the caption "Executive Compensation" in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information under the caption "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions.

The information under the caption "Certain Relationships and Related Transactions" in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services.

The information under the caption "Principal Auditor Fees and Services" in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

Financial Statements

Reference is made to the consolidated financial statements, the reports thereon, the notes thereto and supplementary data commencing at page F-1 of this Annual Report on Form 10-K. Set forth below is a list of such financial statements:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2007 and 2006
Consolidated Statements of Income for each of the years in the two-year period ended December 31, 2007
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for each of the years in the two-year period ended December 31, 2007
Consolidated Statements of Cash Flows for each of the years in the two-year period ended December 31, 2007
Notes to Consolidated Financial Statements

Financial Statement Schedules

All supplemental schedules are omitted as inapplicable or because the required information is included in the consolidated financial statements or related notes.

Exhibits

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of EuroBancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
3.2	Amended and Restated Bylaws of EuroBancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
3.3	Certificate of Designation of EuroBancshares, Inc. Noncumulative Preferred Stock, Series A (incorporated herein by reference to Exhibit 3.3 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
4.1	Specimen stock certificate representing EuroBancshares, Inc. Common Stock (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on August 2, 2004)
4.2	Specimen stock certificate representing EuroBancshares, Inc. Preferred Stock (incorporated herein by reference to Exhibit 4.2 to the Annual Report on Form 10-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 31, 2005)
4.3	Indenture, dated as of December 19, 2002, between EuroBancshares, Inc. and U.S. Bank National Association (f/k/a State Street Bank & Trust Company of Connecticut, National Association) (incorporated herein by reference to Exhibit 4.5 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by

Exhibit Number	Description of Exhibit
	EuroBancshares, Inc. on May 5, 2004)
4.4	Amended and Restated Declaration of Trust, dated as of December 19, 2002, by and among EuroBancshares, Inc. and U.S. Bank National Association (f/k/a State Street Bank & Trust Company of Connecticut, National Association), and Jose Martinez Recondo, Isabella Arrillaga, as Administrators (incorporated herein by reference to Exhibit 4.6 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
4.5	Guarantee Agreement, dated as of December 19, 2002, between EuroBancshares, Inc. and U.S. Bank National Association (f/k/a State Street Bank & Trust Company of Connecticut, National Association) (incorporated herein by reference to Exhibit 4.7 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.1†	EuroBancshares, Inc. 2002 Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.2†	Form of EuroBancshares, Inc. Incentive Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.3†	Form of EuroBancshares, Inc. Non-Qualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.3 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.4†	2005 Stock Option Plan for EuroBancshares, Inc., dated May 12, 2005 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on June 2, 2005)
10.5†	Change in Control Agreement, dated as of March 14, 2007, between EuroBancshares, Inc., Eurobank and Mr. Rafael Arrillaga-Torréns, Jr. (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 16, 2007)
10.6†	Change in Control Agreement, dated as of March 14, 2007, between EuroBancshares, Inc., Eurobank and Ms. Yadira R. Mercado (incorporated herein by reference to Exhibit 10.4 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 16, 2007)
10.7†	Eurobank Master Trust Retirement Plan Program (incorporated herein by reference to Exhibit 10.5 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.8†	Form of EuroBancshares, Inc. Restricted Stock Purchase Agreement (incorporated herein by reference to Exhibit 10.6 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.9†	Agreement and Plan of Merger, dated as of September 6, 2002, by and among EuroBancshares, Inc. and Banco Financiero de Puerto Rico (incorporated herein by reference to Exhibit 10.7 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.10	Agreement and Plan of Merger, dated as of February 24, 2004, by and among EuroBancshares, Inc., Eurobank, and The Bank & Trust of Puerto Rico (incorporated herein by reference to Exhibit 2 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
10.11	Stipulation and Consent to the Issuance of a Cease and Desist Order dated as of March 13, 2007, Eurobank, the Board of Directors of Eurobank and the FDIC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 16, 2007)

Exhibit Number	Description of Exhibit
10.12	Order to Cease and Desist Order dated as of March 15, 2007 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 16, 2007)
10.13	Master Servicing Agreement, dated as of August 6, 2007, by and among EuroBancshares, Inc. and Telefónica Empresas (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 000-50872) previously filed by EuroBancshares, Inc. on November 9, 2007)
10.14	Joint Account Agreement, dated as of January 2, 2008, by and among Eurobank and Oppenheimer & Co., Inc. (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on January 7, 2008)
21	List of Subsidiaries of EuroBancshares, Inc. (incorporated herein by reference to Exhibit 21 to the Registration Statement on Form S-1 (File No. 333-115510) previously filed by EuroBancshares, Inc. on May 5, 2004)
23.1*	Consent of Crowe Chizek and Company LLP, independent registered public accounting firm
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed with this Annual Report on Form 10-K.

† Constitutes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EUROBANCSHARES, INC.

Date: March 13, 2008

By: /s/ Rafael Arrillaga-Torréns, Jr.
Rafael Arrillaga Torrén, Jr.
Chairman of the Board, President and Chief
Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 13, 2008

By: /s/ Rafael Arrillaga-Torréns, Jr.
Rafael Arrillaga Torrén, Jr.
Chairman of the Board, President and Chief
Executive Officer (principal executive officer)

Date: March 13, 2008

By: /s/ Yadira R. Mercado
Yadira R. Mercado
Executive Vice President and Chief Financial Officer
(principal financial officer and principal accounting
officer)

Date: March 13, 2008

By: /s/ Pedro Feliciano Benítez
Pedro Feliciano Benítez
Director

Date: March 13, 2008

By: /s/ Juan Ramón Gómez-Cuétara Aguilar
Juan Ramón Gómez-Cuétara Aguilar
Director

Date: March 13, 2008

By: /s/ Antonio R. Pavía Bibiloni
Antonio R. Pavía Bibiloni
Director

Date: March 13, 2008

By: /s/ Plácido González Córdova
Plácido González Córdova
Director

Date: March 13, 2008

By: /s/ Luis F. Hernández Santana
Luis F. Hernández Santana
Director

Date: March 13, 2008

By: /s/ Ricardo Levy Echeandía
Ricardo Levy Echeandía
Director

Date: March 13, 2008

By: /s/ Jaime Sifre Rodríguez
Jaime Sifre Rodríguez
Director

Date: March 13, 2008

By: /s/ William Torres Torres
William Torres Torres
Director

EUROBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

(With Report of Independent Registered Public Accounting Firm Thereon)

EUROBANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

INDEX

PAGE

CONSOLIDATED FINANCIAL STATEMENTS	
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-1
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006	F-4
CONSOLIDATED STATEMENTS OF INCOME FOR EACH OF THE YEARS IN THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2007	F-5
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME FOR EACH OF THE YEARS IN THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2007	F-6
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR EACH OF THE YEARS IN THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2007	F-7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-8

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
EuroBancshares, Inc. and Subsidiaries
San Juan, Puerto Rico

We have audited the accompanying consolidated balance sheets of EuroBancshares, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007. We also have audited EuroBancshares, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). EuroBancshares, Inc. and Subsidiaries management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting in Item 9A.(b) of the accompanying Form 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EuroBancshares, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, EuroBancshares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Chizek and Company LLP

Fort Lauderdale, Florida
March 11, 2008

Stamp No. 2205192 of the Puerto Rico
Society of Certified Public Accountants
Was affixed to the record copy of this report.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2006

Assets	2007	2006
Cash and due from banks	\$ 15,866,221	\$ 25,527,489
Interest bearing deposits	32,306,909	49,050,368
Securities purchased under agreements to resell	19,879,008	51,191,323
Investment securities available for sale	707,103,432	535,159,009
Investment securities held to maturity	30,845,218	38,432,820
Other investments	13,354,300	4,329,200
Loans held for sale	1,359,494	879,000
Loans, net of allowance for loan and lease losses of \$28,137,104 in 2007 and \$18,936,841 in 2006	1,829,082,008	1,731,022,290
Accrued interest receivable	18,136,489	15,760,852
Customers' liability on acceptances	430,767	1,561,736
Premises and equipment, net	33,083,169	14,889,456
Other assets	49,951,898	33,116,690
Total assets	\$ 2,751,398,913	\$ 2,500,920,233
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest bearing	\$ 120,082,912	\$ 140,321,373
Interest bearing	1,872,963,402	1,765,034,834
Total deposits	1,993,046,314	1,905,356,207
Securities sold under agreements to repurchase	496,419,250	365,664,250
Acceptances outstanding	430,767	1,561,736
Advances from Federal Home Loan Bank	30,453,926	8,707,420
Note payable to Statutory Trust	20,619,000	20,619,000
Accrued interest payable	17,371,698	18,047,074
Accrued expenses and other liabilities	13,139,809	11,086,705
	2,571,480,764	2,331,042,392
Stockholders' equity:		
Preferred stock:		
Preferred stock Series A, \$0.01 par value. Authorized 20,000,000 shares; issued and outstanding 430,537 in 2007 and 2006	4,305	4,305
Capital paid in excess of par value	10,759,120	10,759,120
Common stock:		
Common stock, \$0.01 par value. Authorized 150,000,000 shares; issued: 20,032,398 shares in 2007 and 19,777,536 shares in 2006; outstanding: 19,093,315 shares in 2007 and 19,123,821 in 2006	200,324	197,775
Capital paid in excess of par value	107,936,531	106,539,383
Retained earnings:		
Reserve fund	8,029,106	7,553,381
Undivided profits	61,789,048	59,800,495
Treasury stock, 939,083 shares in 2007 and 653,715 shares in 2006, at cost	(9,910,458)	(7,410,711)
Accumulated other comprehensive gain (loss)	1,110,173	(7,565,907)
Total stockholders' equity	179,918,149	169,877,841
Total liabilities and stockholders' equity	\$ 2,751,398,913	\$ 2,500,920,233

See accompanying notes to condensed consolidated financial statements.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest income:		
Loans, including fees	\$ 143,360,450	\$ 130,003,150
Investment securities:		
Taxable	12,152	371,546
Exempt	26,946,714	29,474,276
Interest-bearing deposits, securities purchased under agreements to resell, and other	<u>3,005,875</u>	<u>2,297,448</u>
Total interest income	<u>173,325,191</u>	<u>162,146,420</u>
Interest expense:		
Deposits	84,675,999	68,545,152
Securities sold under agreements to repurchase, notes payable, and other	<u>20,794,338</u>	<u>26,818,196</u>
Total interest expense	<u>105,470,337</u>	<u>95,363,348</u>
Net interest income	<u>67,854,854</u>	<u>66,783,072</u>
Provision for loan and lease losses	<u>25,348,000</u>	<u>16,903,000</u>
Net interest income after provision for loan and lease losses	<u>42,506,854</u>	<u>49,880,072</u>
Noninterest income:		
Service charges – fees and other	9,584,533	8,475,600
Net loss on sale of securities	—	(1,091,627)
Net (loss) gain on sale of other real estate owned, repossessed assets, and on disposition of other assets	<u>(1,285,958)</u>	<u>16,092</u>
Net gain on sale of loans	<u>379,622</u>	<u>400,489</u>
Total noninterest income	<u>8,678,197</u>	<u>7,800,554</u>
Noninterest expense:		
Salaries and employee benefits	19,890,373	17,506,822
Occupancy	7,827,087	6,999,087
Furniture, fixtures and equipment	3,071,901	2,565,949
Professional services	4,496,283	4,104,442
Municipal and other taxes	1,836,783	1,657,111
Commissions and service fees	1,444,949	1,324,487
Office supplies	1,375,022	1,393,948
Insurance	1,865,353	1,052,922
Promotional	1,492,240	1,199,574
Other	<u>4,924,851</u>	<u>5,581,389</u>
Total noninterest expense	<u>48,224,842</u>	<u>43,385,731</u>
Income before income taxes	<u>2,960,209</u>	<u>14,294,895</u>
Provision for income taxes	<u>(248,874)</u>	<u>6,283,010</u>
Net income	<u>\$ 3,209,083</u>	<u>\$ 8,011,885</u>
Earnings per share:		
Basic:	<u>\$ 0.13</u>	<u>\$ 0.38</u>
Diluted:	<u>\$ 0.13</u>	<u>\$ 0.37</u>

See accompanying notes to consolidated financial statements.

EUROBANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
and Comprehensive Income
Years Ended December 31, 2007 and 2006

	2007	2006
Preferred stock:		
Balance at beginning of period	\$ 4,305	\$ 4,305
Issuance of preferred stock	—	—
Balance at end of period	<u>4,305</u>	<u>4,305</u>
Capital paid in excess of par value - preferred stock:		
Balance at beginning of period	10,759,120	10,759,120
Issuance of preferred stock	—	—
Balance at end of period	<u>10,759,120</u>	<u>10,759,120</u>
Common stock:		
Balance at beginning of period	197,775	195,641
Issuance of common stock and exercised stock options	2,549	2,134
Balance at end of period	<u>200,324</u>	<u>197,775</u>
Capital paid in excess of par value - common stock:		
Balance at beginning of period	106,539,383	105,508,402
Issuance of common stock and exercised stock options	1,146,330	877,630
Stock based compensation	250,818	153,351
Balance at end of period	<u>107,936,531</u>	<u>106,539,383</u>
Reserve fund:		
Balance at beginning of period	7,553,381	6,528,519
Transfer from undivided profits	475,725	1,024,862
Balance at end of period	<u>8,029,106</u>	<u>7,553,381</u>
Undivided profits:		
Balance at beginning of period	59,800,495	54,348,750
Cumulative effect on initial adoption of SAB 108	—	(790,473)
Net income	3,209,083	8,011,885
Preferred stock dividends (\$1.73 in 2007 and 2006 per share)	(744,805)	(744,805)
Transfer to reserve fund	(475,725)	(1,024,862)
Balance at end of period	<u>61,789,048</u>	<u>59,800,495</u>
Treasury stock		
Balance at beginning of period	(7,410,711)	(1,946,052)
Purchase of common stock	(2,499,747)	(5,464,659)
Balance at end of period	<u>(9,910,458)</u>	<u>(7,410,711)</u>
Accumulated other comprehensive income (loss), net of taxes:		
Balance at beginning of period	(7,565,907)	(10,431,650)
Unrealized net gain on investment securities available for sale	8,676,080	2,865,743
Balance at end of period	<u>1,110,173</u>	<u>(7,565,907)</u>
Total stockholders' equity	<u>\$ 179,918,149</u>	<u>\$ 169,877,841</u>
Comprehensive income:		
Net income	\$ 3,209,083	\$ 8,011,885
Other comprehensive income, net of tax:		
Unrealized net gain on investment securities available for sale	8,676,080	1,774,116
Reclassification adjustment for realized loss included in net income	—	1,091,627
Unrealized net gain on investments securities available for sale	8,676,080	2,865,743
Comprehensive income	<u>\$ 11,885,163</u>	<u>\$ 10,877,628</u>

See accompanying notes to consolidated financial statements.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 3,209,083	\$ 8,011,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,020,286	3,762,194
Provision for loan and lease losses	25,348,000	16,903,000
Stock-based employee compensation	250,817	153,351
Deferred tax and purchase of tax credits (benefit) provision	(4,636,938)	(1,059,470)
Net loss on sale of securities	—	1,091,627
Net gain on sale of loans	(379,622)	(400,489)
Net loss (gain) on sale of repossessed assets and on disposition of other assets	1,285,958	(16,092)
Net amortization of premiums and accretion of discount on investment securities	5,197,465	2,556,010
Valuation expense of repossessed assets	1,349,112	1,295,771
Decrease in deferred loan costs	2,513,927	2,561,702
Net effect of adjustment by SAB 108	—	(790,473)
Write-off notes payable to statutory trust placement costs	—	625,842
Origination of loans held for sale	(17,003,663)	(13,836,775)
Proceeds from sale of loans held for sale	17,387,492	14,237,263
Increase in accrued interest receivable	(2,375,637)	(781,068)
Net decrease (increase) in other assets	(1,941,420)	8,354,522
Increase in accrued interest payable, accrued expenses, and other liabilities	1,377,672	13,584,441
Net cash provided by operating activities	<u>34,602,533</u>	<u>56,253,241</u>
Cash flows from investing activities:		
Net decrease in securities purchased under agreements to resell	31,312,315	2,941,350
Net decrease (increase) in interest-bearing deposits	16,743,459	(28,277,197)
Proceeds from sale of investment securities available for sale	—	48,992,897
Purchases of investment securities available for sale	(318,188,058)	(89,194,907)
Proceeds from principal payments and maturities of investment securities available for sale	149,866,240	131,490,329
Proceeds from principal payments, maturities, and calls of investment securities held to maturity	7,443,335	3,887,363
Purchase of Federal Home Loan Bank Stocks	(14,802,500)	(1,175,200)
Proceeds from principal payments and maturities of Federal Home Loan Bank Stocks	5,775,900	6,727,000
Net increase in loans	(140,543,978)	(207,802,256)
Proceeds from sale of other assets	782,944	761,740
Capital expenditures	(20,749,454)	(6,020,879)
Net cash used in investing activities	<u>(282,359,797)</u>	<u>(137,669,760)</u>
Cash flows from financing activities:		
Net increase in deposits	87,690,107	171,228,061
Increase (decrease) in securities sold under agreements to repurchase and other borrowings	130,755,000	(54,895,675)
Net increase (decrease) in Federal Home Loan Bank Advances	21,746,506	(51,206)
Repayment of note payable to trust	—	(25,000,000)
Dividends paid to preferred stockholders	(744,750)	(745,762)
Net proceeds from issuance of common stock	1,148,880	879,764
Purchase of common stock	(2,499,747)	(5,464,659)
Net cash provided by financing activities	<u>238,095,996</u>	<u>85,950,523</u>
Net (decrease) increase in cash and due from banks	(9,661,268)	4,534,004
Cash and cash due from banks beginning balance	25,527,489	20,993,485
Cash and due from banks ending balance	\$ <u>15,866,221</u>	\$ <u>25,527,489</u>

See accompanying notes to consolidated financial statements.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(1) Organization

EuroBancshares, Inc. (the Company or EuroBancshares) was incorporated on November 21, 2001, under the laws of the Commonwealth of Puerto Rico to engage, for profit, in any lawful acts or businesses and serve as the holding company for Eurobank (the Bank). The Bank is a full service commercial bank with a delivery system of 26 branches in Puerto Rico. As a financial holding company, the Company is subject to the provisions of the Bank Holding Company Act, and to the supervision and regulation by the board of governors of the Federal Reserve System.

The consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries: the Bank (including two international banking entities) and Euroseguros, Inc. (Euroseguros or the Agency), a company acting as an agent to sell life, property, and casualty insurance products in Puerto Rico, principally to customers of the Bank.

(2) Summary of Significant Accounting Policies

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting periods. These estimates are based on information available as of the date of the consolidated financial statements. Significant items subject to such estimates and assumptions include the allowance for loan and lease losses, fair value of financial instruments, derivatives, valuation of repossessed assets and deferred income tax. Therefore, actual results could differ from those estimates. Following is a description of significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements:

(a) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) *Due from banks and Cash Flow*

For purposes of the presentation in the statements of cash flows, cash and due from banks are defined as those amounts included in the balance sheets caption cash and due from banks. For customer loan and deposits transactions, interest bearing deposits in other institutions, and federal funds purchased and repurchased agreements, net cash flows are reported.

(c) *Securities Purchased under Agreements to Resell*

The Company enters into purchases of securities under agreements to resell. The amounts advanced under these agreements represent short-term investment transactions.

(d) *Investment Securities Available for Sale*

Investment securities available for sale consist of bonds, notes, other debt securities, and certain equity securities not classified as trading or held-to-maturity securities. Investment securities available for sale are recorded at fair value and their unrealized gains and losses, net of tax, are reflected as a separate component of stockholders' equity in accumulated other comprehensive income until realized. Realized gains or losses on sales of investment securities available-for-sale are recognized when realized and are computed on the specific-identification basis.

Declines in fair value of securities below their cost that are deemed to be other than temporary result in an impairment that is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery or maturity and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Premiums and discounts are amortized over the estimated average life of the related investment security available for sale as an adjustment to yield using a method that approximates the interest method. Additionally, the Company anticipates estimated prepayments on mortgage-backed securities in the amortization of premiums and accretion of discounts on such securities. Dividend and interest income are recognized when earned.

(e) *Investment Securities Held to Maturity*

Investment securities held to maturity are carried at cost, adjusted for premium amortization and discount accretion. The amortization of premiums is deducted and the accretion of discounts is added to interest income based on a method that approximates the interest method over the outstanding period of the related investment securities. The Company classifies investments as held to maturity when it has the intent and the ability to hold the investment until maturity.

A decline in the fair value of the securities below their cost that is deemed to be other than temporary results in an impairment that is charged against earnings and a new cost basis for the security is established. To determine whether impairment is other than temporary, the Company considers whether evidence indicating that the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee.

(f) *Other Investments*

Other investments include Federal Home Loan Bank (FHLB) stock and the equity investment in the unconsolidated statutory trusts. The FHLB stock is carried at cost, representing the amount for which the FHLB would redeem the stock. Investment in statutory trust is carried on the equity method of accounting.

(g) *Loans Held for Sale*

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

(h) *Loans and Allowance for Loan and Lease Losses*

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted by any charge-offs, unearned finance charges, allowance for loan and lease losses, and net deferred nonrefundable fees or costs on origination.

The Company determines delinquency status based on contractual terms and generally classifies loans as nonperforming when they become 90 days past due, unless the loan is adequately collateralized and the Company is in the process of collection. All interest accrued but not collected for loans and leases that are placed on nonaccrual status is reversed against interest income. The interest on these loans is accounted for on a cost recovery method, until qualifying for return to accrual status.

The allowance for loan and lease losses is an estimate to provide for probable collection losses in the loan and lease portfolio. Losses are charged and recoveries are credited to the allowance account at the time a loss is incurred or a recovery is received.

On a quarterly basis, the Company effects partial charge-offs on all lease finance contracts that are over 120 days past due. Also, except for leases in a payment plan, bankruptcy or other legal proceedings, the Company charges-off most of our lease finance contracts that are over 365 days past due. This full charge-off is made on a quarterly basis. Closed-ends consumer loans are charged-off when 120 days in arrears. Revolving credit consumer loans are charged-off when 180 days in arrears.

The Company follows a consistent procedural discipline and accounts for loan loss contingencies in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*,

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

and SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures*. The following is a description of how each portion of the allowance for loan and lease losses is determined.

When analyzing the adequacy of the allowance for loan and lease losses, the portfolio is segmented into major loan categories. Although the evaluation of the adequacy of the allowance for loan and lease losses focuses on loans and pools of similar loans and leases, no part of the allowance is segregated for, or allocated to, any particular asset or group of assets. The allowance is available to absorb all credit losses inherent in the portfolio.

Each component would normally have similar characteristics, such as classification, type of loan or lease, industry or collateral. As needed, the Company separately analyzes the following components of the portfolio and provides for them in the allowance for loan and lease losses: credit quality; sufficiency of credit and collateral documentation; proper lien perfection; appropriate approval by the loan officer and the credit committees; adherence to any loan agreement covenants; and compliance with internal policies and procedures and laws and regulations.

The general portion of the allowance for loan and lease losses is determined by applying historic loss factors to all categories of loans and leases outstanding in the portfolio. The Company uses historic loss factors determined over a period from 1 through 5 years, depending on the nature of the loan portfolio. At least on an annual basis, the historical loss factor is adjusted for each pool of loans to reflect any current conditions that are expected to result in loss recognition. Factors considered include, but are not limited to: effects of any changes in lending policies and procedures, including those for underwriting, collection, charged-offs, and recoveries; changes in the experience, ability, and depth of our lending management and staff; concentrations of credit that might affect loss experience across one or more components of the portfolio; levels of, and trends in, delinquencies and nonaccruals; and national and local economic business trends and conditions.

The resulting loss factors are then multiplied against the current period's balance of unclassified loans to derive an estimated loss. Rates for each pool are based on those factors management believes are applicable to that pool. When applied to a pool of loans or leases, the adjusted historical loss rate is a measure of the total inherent losses in the portfolio that would have been estimated if each individual loan or lease had been reviewed.

On a quarterly basis, a risk percentage is assigned to each environmental factor based on our judgment of the implied risk over each loan category. The result of our assumptions is then applied to the current period's balance of loans outstanding to derive the probable effect these current internal and external environmental factors could have over the general portion of our allowance. The net allowance resulting from this procedure is included as an additional component in the evaluation of the adequacy of our allowance.

In addition to our general allowance, specific allowances are provided in the event that the specific analysis on each classified loan indicates that it is probable that the Company will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When a loan is impaired, the Company measures impairment based on either (a) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective rate, (b) the observable market price of the impaired loans, or (c) the fair value of the collateral of a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis, except for collateral-dependent loans with a probable foreclosure, which must be measured at the fair value of the collateral. If impairment exists it is recorded through a valuation allowance. In a troubled debt restructuring involving a restructured loan, the Company measures impairment by discounting the total expected future cash flows at the loan's original effective rate of interest. The provision for loan and lease losses is adjusted in order to state the allowance for loan and lease losses to the required level as determined above.

(i) *Lease Financing*

The Company leases vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified by SFAS No. 13,

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Accounting for Leases, as amended. Aggregate rentals due over the term of the leases, less unearned income, are included in net loans. Unearned income is amortized using a method that results in approximate level rates of return on the principal amounts outstanding. Finance lease origination fees and costs are deferred and amortized over the average life of the portfolio as an adjustment to yield.

(j) *Transfer of Financial Assets*

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (a) the assets have been isolated from the Company; (b) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (c) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Upon completion of a transfer of assets that satisfies the conditions described above to be accounted for as a sale, the Company:

- Derecognizes all assets sold;
- Recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale;
- Initially measures, at fair value, assets obtained and liabilities incurred in a sale; and
- Recognizes in earnings any gain or loss on the sale.

(k) *Premises and Equipment*

Premises and equipment are stated at cost, less accumulated depreciation and amortization, which are calculated utilizing the straight-line method over the estimated useful lives of the depreciable assets. Leasehold improvements are stated at cost and are amortized using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is shorter. Expenditures for major improvements and remodeling are capitalized while maintenance and repairs are charged to expense. Gains or losses on disposition of premises and equipment and related operating income and maintenance expenses are included in current operations.

(l) *Other Real Estate and Repossessed Assets*

Other real estate and repossessed assets, normally obtained through foreclosure or other workout situations, are initially recorded at the lower of fair value or book value at the date of foreclosure, establishing a new cost basis. Any resulting loss is charged to the allowance for loan and lease losses. An appraisal of other real estate properties and valuation of repossessed assets is made periodically after its acquisition and comparison between the appraised value and the carrying value is performed. Additional declines in value after acquisition, if any, are charged to current operations. Gains or losses on disposition of other real estate and repossessed assets and related operating income and maintenance expenses are included in current operations.

(m) *Trust Services*

Trust fees are recorded on accrual basis at the time services are rendered. In connection with its trust activities, the Company administers and is custodian of assets, which amounted to approximately \$299,445,000 and \$235,263,000 at December 31, 2007 and 2006, respectively.

(n) *Securities Sold under Agreements to Repurchase*

The Company sells securities under agreements to repurchase the same or similar securities. Amounts received under these agreements represent short-term financing transactions.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(o) *Income Taxes*

The Company uses the asset and liability method for the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future as well as net operating losses carryforwards. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled.

(p) *Reserve Fund*

The Banking Law of Puerto Rico requires that a reserve fund be created and that annual transfers of at least 10% of annual net income of the Bank be made, until such fund equals total paid-in capital. Such transfers restrict the retained earnings, which would otherwise be available for dividends. On the other hand, if net losses are experienced, such losses will be initially charged to retained earnings before reducing the reserve fund.

(q) *Interest Income*

Interest income on loans and investment securities is recognized on a basis which produces a constant yield over the term of the loan or security. Accrual of interest income is discontinued when collectibility of the related loan appears doubtful or after 90 days of delinquency, unless the credit is well secured and in process of collection. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(r) *Loan Origination and Commitment Fees*

Loan fees and certain direct loan origination costs are deferred, and the net amount is recognized in interest income using the interest method over the contractual life of the loans. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment to yield.

(s) *Earnings Per Share*

Basic earnings per share represent income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. Any stock splits and stock dividend are retroactively recognized in all periods presented in the consolidated financial statements.

EUROBANCSHARES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****December 31, 2007 and 2006****(t) Supplementary Cash Flow Information**

Supplemental disclosures of cash flow information are as follows:

	<u>2007</u>	<u>2006</u>
Cash paid during the years for:		
Interest	\$ 106,146,000	\$ 86,580,000
Income taxes	4,335,000	4,067,000
Noncash transactions:		
Reposessed assets acquired		
through foreclosure of loans	\$ 36,366,000	\$ 48,650,000
Financing of reposessed assets	25,186,000	29,460,000

(u) Stock Option Plan

Effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payment, using the modified prospective transition method. Accordingly, the Company has recorded stock based employee compensation cost using the fair value method starting in 2006. Please refer to note 22 Stock Option Plan for details.

(v) Comprehensive Income

Comprehensive income consists of net income and other Comprehensive Income. In addition to net income, the Company recognizes unrealized holding gains and losses, net of taxes, from available-for-sale securities and the change in fair value of the cash-flow hedges as components of comprehensive income.

(w) Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison between the carrying amount of an asset and the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are not longer depreciated and are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

There were no impairment losses in 2007 and 2006.

(x) Derivative Instruments and Hedging Activities

The Company follows the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values.

On the date a derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge). For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value and cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument, that qualifies as either a fair-value or a cash-flow hedge is reported in earnings. Changes in the fair value of derivative not designated as hedges are reported in current period earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is re-designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value-hedge, the Company no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting if not already done and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

(y) ***Business Segments***

An operating segment is a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. Presently, the Company's decisions are generally based on specific market areas and/or product offerings. Accordingly, based on the financial information that is regularly evaluated by the Company's chief operating decision-maker, the Company has determined that it operates as a single business segment.

(z) ***Recently Issued Accounting Standards***

The Financial Accounting Standard Board Interpretation (FIN) No. 48, "*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*" was issued in June 2006. This Interpretation provides guidance for the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 (FAS 109), "*Accounting for Income Taxes*." This Interpretation revises FAS 109 to prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 addresses the diversity that exists in the practice by defining a criterion that an individual tax position is recognized as a benefit only if it meet the "more likely than not" test, which is set at 50%, presuming the occurrence of a tax examination. This interpretation is effective for fiscal years beginning after December 15, 2006. During the

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

first quarter of 2007, the Company adopted the provisions of FIN No. 48, which did not have an impact on the Company's financial condition or results of operations.

The Company and its subsidiaries are subject to the Puerto Rico tax law but generally are not subject to US federal income tax. The Company and its subsidiaries are only subject to examination for taxable years beginning after 2002. Prior to adopting FIN 48, the Company had recognized approximately \$765,000 in contingent liabilities for uncertain tax positions under the Statement of Financial Accounting Standards No. 5, *"Accounting for Contingencies."* Upon the adoption of FIN 48, the Company reevaluated this contingency and concluded that it was adequate under FIN 48. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. The company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, *"Fair Value Measurements."* This statement provides the generally accepted accounting principles (GAAP) definition for fair value, the framework for measurements and additional disclosures. The main focus of SFAS 157 is to revise the definition of fair value and to provide guidance for applying the GAAP definition. This statement applies under other accounting pronouncements that require fair value measurements; however this statement does not require any new fair value measurements. The definition provided in this statement clarifies that the price to be used is the price that would be received by selling the asset or paid to transfer liability instead of the price to acquire the asset or received to assume the liability. This statement applies prospectively and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company believes that the impact of adopting SFAS 157 will not be material to the financial statements.

In September 2006, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 108 ("SAB 108"). This bulletin addresses the methodologies used by registrants to consider the effects of prior year's misstatements when quantifying misstatements in the current year financial statements. SAB 108 compares the diversity in practice among registrants and expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. In December 2006, the Company adopted the provisions of SAB 108. Prior to adopting SAB 108, the Company consistently used the rollover approach when considering the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment.

As a result of the adoption of SAB 108, the Company reported a cumulative adjustment to the beginning retained earnings associated with an accounting error related to the application of the Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with originating or Acquiring Loans and Initial Direct Costs of Leases* ("FAS 91"), *Financial Accounting Standards No. 13, Accounting for Leases* ("FAS 13"), and FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases* ("FTB85-3").

FAS 91 establishes, among others, standards of financial accounting and reporting for purchase premiums or discounts associated with loan purchases. FAS 91 requires the difference between the initial investment in a purchased loan or group of loans and the amount paid to the seller plus any fees paid or less any fees received at the date of purchase to be recognized as an adjustment of yield over the life of the loan. Also, it establishes that if prepayments are not anticipated and they occur, a proportionate amount of the related purchase premium or discount shall be recognized in income so that the effective interest rate on the remaining portion of loans continues unchanged. In the past the Company did not apply the provisions of FAS 91 over prepayments of loans purchased from The Bank & Trust of Puerto Rico ("BankTrust") in May 2004. As of December 31, 2005, there was \$849,350 in unamortized net purchase premiums related to canceled loans previously acquired from BankTrust. This difference net of taxes of \$331,247 represented an adjustment of \$518,103 to the earnings in prior periods, as of December 31, 2006.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

FTB85-3 requires that increases in scheduled rent, which are included in minimum lease payments under FAS 13, to be recognized by lessors and lessees on a straight-line basis over the lease term unless another systematic and rational allocation basis is more representative of the time pattern in which the leased property is physically employed. The Company has several lease agreements with escalating clauses, for which related rent expense was recorded as paid instead of on a straight-line basis over the lease term. As of December 31, 2005, the deferred rent expense liability was understated by \$446,506. This difference net of taxes of \$174,138 represented an adjustment of \$272,368 to earnings in prior periods, as of December 31, 2006.

The Company, as permitted by the provision of SAB 108, adjusted the Statements of Change in Stockholders Equity by \$790,741 to the beginning balance of retained earnings for year 2006 to report the cumulative effect of its initial application.

The Financial Accounting Standard Board (FASB) issued SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" in February 2007. This statement includes an amendment to SFAS 115, "*Accounting for Certain Investments in Debt and Equity Securities*", to allow entities to choose to measure at fair value many financial instruments that are not required to be measured at fair value under existing SFAS. The main focus of SFAS 159 is to improve the use of fair value measurement providing the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement does not affect the provisions of any other SFAS that requires fair value measurement for certain assets or liabilities. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Company did not elect the early adoption of this statement.

In December 2007, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 110 ("SAB 110"). This bulletin addresses the staff view regarding the use of a simplified method by registrants when estimating the expected term of "plain vanilla" share options in accordance with Statement of Financial Accounting Standards No. 123, (revised 2004) *Share Based Payment*. The SEC previously issued SAB 107, which stated that the staff would not expect a company to use the simplified method for share options grants after December 31, 2007. In SAB 110, the SEC expressed that the employee exercise behavior may not be available by December 31, 2007 and will continue to accept the use of the simplified method when estimating the expected term of "plain vanilla" share options if the entity is unable to rely on historical exercise data. However, entities applying the simplified method after the effective date of this bulletin should disclose the reasons why the method is used. This Staff Accounting Bulletin is effective January 1, 2008. The Company used the simplified method when estimating expected term for the options granted in 2007 and 2006.

On December 19, 2007, the SEC issued final rules amending and streamlining reporting requirements for smaller reporting companies. These rules eliminate Regulation S-B for small reporting companies and integrate those provisions into Regulation S-K and Regulation S-X. Among other things, these new rules, which became effective on February 4, 2008, (i) created a new category of filer, the "smaller reporting company," which replaces the current "small business issuer" category; (ii) expanded the availability of scaled disclosure requirements to filers with a public float of less than \$75 million (or where no public float or market price exists, less than \$50 million in annual revenue); and (iii) moved the Regulation S-B reporting requirements to Regulation S-K and eliminate Regulation S-B and its various reporting forms, for example Form SB-2. In addition, these new rules allowed small reporting companies to choose the scaled reporting requirements on an à la carte basis, thereby permitting the company to choose its disclosure requirements on an item-by-item basis. While the Company has generally opted to continue its larger company disclosures consistent with past practices, in order to minimize the time, costs and expenses associated with obtaining the consent of its former auditors, the Company has elected to include two years of prior audited financial statement information consistent with the smaller reporting company requirements.

EUROBANCSHARES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****December 31, 2007 and 2006****(3) Securities Purchased Under Agreements to Resell**

Securities purchased under agreements to resell at December 31, 2007 and 2006 consist of short-term investments, usually overnight transactions. The following table summarizes certain information on securities purchased under agreements to resell:

	<u>2007</u>	<u>2006</u>
Amount outstanding at year-end	\$ 19,879,008	\$ 51,191,323
Maximum aggregate balance outstanding at any month-end	61,649,614	51,191,323
Average monthly aggregate balance outstanding during the year	32,870,163	30,904,690
Weighted average interest rate for the year	5.49%	5.29%
Weighted average interest rate at year-end	5.22%	5.58%

The amounts advanced under those agreements are reflected as assets in the balance sheets. It is the Company's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Company's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are segregated by the broker or dealer custodian bank account designated under a written custodial agreement that explicitly recognizes the Company's interest in the securities.

The fair value of the collateral securities held by the Company on these transactions as of December 31, 2007 and 2006 was approximately \$20,352,000 and \$52,216,000, respectively. It is the Company's policy to request collateral securities with fair value of at least 102% of the transaction amount.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(4) Investment Securities Available for Sale

Investment securities available for sale and related contractual maturities as of December 31, 2007 and 2006 are as follows:

	2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Commonwealth of Puerto Rico obligations:				
Less than one year	\$ 775,336	\$ 20,068	\$ (140)	\$ 795,264
One through five years	4,840,524	79,974	—	4,920,498
Federal Farm Credit Bonds:				
Less than one year	27,454,067	251,882	—	27,705,949
Federal Home Loan Bank notes:				
Less than one year	84,447,295	32,284	(19,739)	84,459,840
One through five years	7,119,149	46,537	—	7,165,686
Federal National Mortgage Association notes:				
One through five years	10,000,000	66,900	—	10,066,900
US Corporate Note				
One through five years	3,000,000	—	(256,500)	2,743,500
Mortgage-backed securities	568,355,302	3,349,482	(2,458,989)	569,245,795
Total	<u>\$ 705,991,673</u>	<u>\$ 3,847,127</u>	<u>\$ (2,735,368)</u>	<u>\$ 707,103,432</u>

	2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Commonwealth of Puerto Rico obligations:				
Less than one year	\$ 4,116,192	\$ 14,056	\$ (39,760)	\$ 4,090,488
One through five years	5,401,713	71,851	(1,110)	5,472,454
Federal Farm Credit Bonds:				
Less than one year	30,319,617	—	(383,179)	29,936,438
One through five years	19,994,263	—	(311,883)	19,682,380
Federal Home Loan Bank notes:				
Less than one year	20,885,000	—	(218,738)	20,666,262
One through five years	79,419,623	—	(1,375,610)	78,044,013
Five to ten years	7,922,971	—	(71,985)	7,850,986
Federal National Mortgage Association notes:				
One through five years	19,991,659	83,491	—	20,075,150
Mortgage-backed securities	354,672,013	412,557	(5,743,732)	349,340,838
Total	<u>\$ 542,723,051</u>	<u>\$ 581,955</u>	<u>\$ (8,145,997)</u>	<u>\$ 535,159,009</u>

Contractual maturities on certain investment securities available for sale could differ from actual maturities since certain issuers have the right to call or prepay these securities.

At December 31, 2007 and 2006, no investments that are payable from and secured by the same source of revenue or taxing authority, other than the U.S. government and U.S. agencies exceed 10% of stockholders' equity.

During the year ended December 31, 2007, there were no sales of investment securities. During the year ended December 31, 2006, proceeds from sales of investment securities were approximately \$48,993,000, resulting in a gross loss of approximately \$1,092,000.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

For the years ended December 31, 2007 and 2006, gross unrealized losses on investment securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	2007					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. agency debt securities	\$ -	\$ -	\$ (19,739)	\$ 13,240,261	\$ (19,739)	\$ 13,240,261
State and municipal obligations	(140)	200,196	-	-	(140)	200,196
US Corporate Note	(256,500)	2,743,500	-	-	(256,500)	2,743,500
Mortgage-backed securities	(804,224)	78,237,438	(1,654,765)	136,618,716	(2,458,989)	214,856,154
	<u>\$ (1,060,864)</u>	<u>\$ 81,181,134</u>	<u>\$ (1,674,504)</u>	<u>\$ 149,858,977</u>	<u>\$ (2,735,368)</u>	<u>\$ 231,040,111</u>

	2006					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U.S. agency debt securities	\$ (71,985)	\$ 7,850,986	\$ (2,289,410)	\$ 148,329,093	\$ (2,361,395)	\$ 156,180,079
State and municipal obligations	(10,563)	770,325	(30,307)	2,480,885	(40,870)	3,251,210
Mortgage-backed securities	(243,756)	50,655,419	(5,499,976)	250,971,704	(5,743,732)	301,627,123
	<u>\$ (326,304)</u>	<u>\$ 59,276,730</u>	<u>\$ (7,819,693)</u>	<u>\$ 401,781,682</u>	<u>\$ (8,145,997)</u>	<u>\$ 461,058,412</u>

- **U.S. Agency Debt Securities** – The unrealized losses on investments in U.S. agency debt securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.
- **Mortgage-Backed Securities** – The unrealized losses on investments in mortgage-backed securities were caused by interest rate increases. The company has mortgage-backed securities that were issued by private corporations and by U.S. government enterprise. The contractual cash flows of the securities issued by a U.S. government enterprise are guaranteed by the U.S. government sponsored enterprise issuing the securities. It is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.
- **US Corporate Notes** – The unrealized losses on investments in U.S. corporate notes were caused primarily by changes in interest rate expectations. It is expected that the securities would not settle at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporary impaired.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(5) Investment Securities Held to Maturity

Investment securities held to maturity as of December 31, 2007 and 2006 were as follows:

2007				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. agency debt securities	\$ 2,774,712	\$ —	\$ (12,717)	\$ 2,761,995
Mortgage-backed securities	28,070,506	16,983	(397,558)	27,689,931
Total	\$ 30,845,218	\$ 16,983	\$ (410,275)	\$ 30,451,926

2006				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. agency debt securities	\$ 3,164,937	\$ —	\$ (93,402)	\$ 3,071,535
Mortgage-backed securities	35,267,883	—	(865,645)	34,402,238
Total	\$ 38,432,820	\$ —	\$ (959,047)	\$ 37,473,773

During the years ended December 31, 2007 and 2006, there were no sales or transfer of investment securities held to maturity.

For the years ended December 31, 2007 and 2006, gross unrealized losses on investment securities held to maturity and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

2007					
	Less than 12 months		12 months or more		Total
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses Fair value
U.S. agency debt securities	\$ —	\$ —	\$ (12,717)	\$ 2,761,995	\$ (12,717) \$ 2,761,995
Mortgage-backed securities	—	—	(397,558)	23,477,416	(397,558) 23,477,416
	\$ —	\$ —	\$ (410,275)	\$ 26,239,411	\$ (410,275) \$ 26,239,411

2006					
	Less than 12 months		12 months or more		Total
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses Fair value
U.S. agency debt securities	\$ —	\$ —	\$ (93,402)	\$ 3,071,535	\$ (93,402) \$ 3,071,535
Mortgage-backed securities	—	—	(865,645)	34,402,238	(865,645) 34,402,238
	\$ —	\$ —	\$ (959,047)	\$ 37,473,773	\$ (959,047) \$ 37,473,773

- **U.S. Agency Debt Securities** – The unrealized losses on investments in U.S. agency debt securities were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.
- **Mortgage-Backed Securities** – The unrealized losses on investments in mortgage-backed securities were caused by interest rate increases. The company has mortgage-backed securities that were issued by private corporations and by U.S. government enterprise. The contractual cash flows of the securities issued by a U.S. government enterprise are guaranteed by the U.S. government sponsored enterprise issuing the securities. It is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(6) Other Investments

Other investments at December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
FHLB stock, at cost	\$ 12,744,300	\$ 3,717,700
Investment in statutory trust (note 16)	<u>610,000</u>	<u>611,500</u>
Other investments	<u>\$ 13,354,300</u>	<u>\$ 4,329,200</u>

(7) Pledged Assets

At December 31, 2007, various securities and loans were pledged to secure the following:

<u>Asset pledged</u>	<u>Carrying value</u>	<u>Items secured/collateralized</u>
Securities	\$ 54,366,946	Deposits of public funds
Commercial loans guaranteed by the Small Business Administration	593,003	Deposits of public funds
Residential mortgage loans	43,605,510	Advances from Federal Home Loan Bank
Securities	119,548	Assets pledged with Commissioner of Financial Institutions of the Commonwealth of Puerto Rico for IRA Trust
Securities	897,346	Assets pledged with Commissioner of Financial Institutions of the Commonwealth of Puerto Rico for the Trust and the International Banking Entity operations
Securities	277,471	Assets pledged with the Federal Reserve Bank for Treasury, tax, and loan account
Securities	12,149,259	Assets pledged with the Federal Reserve Bank for Discount Window
Securities	3,881,284	Assets pledged for derivatives contracts
Securities	530,865,654	Securities sold under agreements to repurchase

At December 31, 2007, certain securities were pledged to secure assets sold under agreement to repurchase. These securities with creditor's right to repledge were classified as available-for-sale and held-to-maturity investments securities and had a carrying amount of \$510,640,734 and \$20,224,920, respectively.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(8) Loans, Net

A summary of the Company's loan portfolio at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Loans secured by real estate:		
Commercial and industrial	\$ 792,308,856	\$ 736,555,175
Construction	203,344,272	126,241,190
Residential mortgage	106,947,204	76,277,339
Consumer	779,610	782,456
	<u>1,103,379,942</u>	<u>939,856,160</u>
Commercial and industrial	302,530,197	297,511,599
Consumer	57,745,127	60,682,410
Lease financing contracts	385,390,263	443,310,627
Overdrafts	6,849,655	5,015,183
	<u>1,855,895,184</u>	<u>1,746,375,979</u>
Deferred loan origination costs, net	2,365,896	4,879,823
Unearned finance charges	(1,041,968)	(1,296,671)
Allowance for loan and lease losses	<u>(28,137,104)</u>	<u>(18,936,841)</u>
Loans, net	<u>\$ 1,829,082,008</u>	<u>\$ 1,731,022,290</u>

The components of the net lease financing at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Installments lease payments	\$ 319,370,361	\$ 374,415,877
Contractual residual payments	66,019,902	68,894,750
Minimum lease payments	385,390,263	443,310,627
Deferred origination costs, net	3,463,530	5,609,852
Less unearned income (equipment leases)	<u>(1,041,968)</u>	<u>(1,296,671)</u>
	<u>\$ 387,811,825</u>	<u>\$ 447,623,808</u>

Contractual residual payments apply to leases where there is a more than nominal final payment for transfer of the unit to lessee. Such amounts are obligations of the lessee, which are generally established at amounts not to exceed the unit's estimated value at the end of the lease term.

At December 31, 2007, future minimum lease payments are expected to be received as follows:

Years ending December 31:

2008	\$ 106,289,049
2009	105,285,442
2010	87,833,919
2011	53,466,271
2012	28,979,293
Thereafter	<u>3,536,289</u>
	<u>\$ 385,390,263</u>

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

The following is a summary of information pertaining to impaired loans:

	<u>2007</u>	<u>2006</u>
Impaired loans with related allowance	\$ 32,147,000	\$ 11,878,000
Impaired loans that did not require allowance	<u>52,283,000</u>	<u>27,319,000</u>
Total impaired loans	<u>\$ 84,430,000</u>	<u>\$ 39,197,000</u>
Allowance for impaired loans	\$ 9,538,000	\$ 2,219,000

	<u>2007</u>	<u>2006</u>
Average investment in impaired loans	\$ 61,234,000	\$ 27,640,000
Interest income recognized on impaired loans	1,961,000	1,041,000

The following is the information pertaining to nonperforming loans as of December 31:

	<u>2007</u>	<u>2006</u>
Loans contractually past due 90 days or more but still accruing interest	\$ 29,075,000	\$ 12,723,000
Non accrual loans	<u>68,990,000</u>	<u>37,255,000</u>
Total non performing loans	<u>\$ 98,065,000</u>	<u>\$ 49,978,000</u>

No additional funds are committed to be advanced in connection with impaired loans.

As of December 31, 2007 and 2006, loans on which the accrual of interest had been discontinued amounted to approximately \$69,425,000 and \$37,255,000, respectively. If these loans would have been accruing interest, the additional interest income realized would have been amounted to approximately \$5,523,000 and \$3,265,000 for 2007 and 2006, respectively.

Commercial and industrial loans with principal outstanding balances amounting to approximately \$1,605,000 and \$2,174,000 in 2007 and 2006, respectively, were guaranteed by the U.S. government through the Small Business Administration at percentages varying from 75% to 90%. As of December 31, 2007 and 2006, industrial loans with a principal outstanding balance of approximately \$653,000 and \$1,503,000, respectively, were guaranteed by the U.S. government through the U.S. Department of Agriculture.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(9) Allowance for Loan and Lease Losses

The following analysis summarizes the changes in the allowance for loan and lease losses for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 18,936,841	\$ 18,188,130
Provision for loan and lease losses	25,348,000	16,903,000
Loans and leases charged-off	(18,270,875)	(18,789,323)
Recoveries	<u>2,123,139</u>	<u>2,635,034</u>
Balance at end of year	<u>\$ 28,137,104</u>	<u>\$ 18,936,841</u>

(10) Premises and Equipment, Net

Premises and equipment at December 31 are as follows:

	<u>Estimated useful lives (years)</u>	<u>2007</u>	<u>2006</u>
Land		\$ 4,899,328	\$ 850,738
Building	40	18,930,167	6,498,507
Leasehold improvements	5 to 20	9,015,413	7,646,256
Furniture, fixtures, and equipment	2 to 5	13,835,040	11,074,966
Construction in progress		<u>193,848</u>	<u>616,131</u>
		46,873,796	26,686,598
Accumulated depreciation and amortization		<u>(13,790,627)</u>	<u>(11,797,142)</u>
		<u>\$ 33,083,169</u>	<u>\$ 14,889,456</u>

Depreciation and amortization expense for the years ended December 31, 2007 and 2006 amounted to \$2,391,119 and \$2,042,839, respectively.

On February 6, 2007, Eurobank, the wholly owned banking subsidiary of EuroBancshares, Inc., closed on the purchase of land and an office building to serve as the new headquarters of EuroBancshares and Eurobank. The property, which is located in San Juan, includes a 57,187 square foot office building consolidates the Company's and the Bank's headquarters, administrative operations and leasing division. The purchase price for the property was \$12,360,000. In addition, as of December 31, 2007, building improvements amounted to approximately \$2,948,000.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(11) Other Assets

Other assets at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Deferred tax assets, net (note 19)	\$ 10,898,071	\$ 6,260,855
Merchant credit card items in process of collection	2,416,934	1,854,919
Auto insurance claims receivable on repossessed vehicles	1,148,782	1,864,326
Accounts receivable	8,828,058	1,146,465
Other real estate, net of valuation allowance of \$120,857 and \$41,894 in 2007 and 2006, respectively	8,124,572	3,628,971
Other repossessed assets, net of valuation allowance of \$565,767 and \$799,104 in 2007 and 2006, respectively	5,409,451	9,418,811
Prepaid expenses and deposits	6,766,081	7,772,760
Fair value option	3,950,000	—
Other	2,409,951	1,169,583
	<u>\$ 49,951,898</u>	<u>\$ 33,116,690</u>

Other repossessed assets are presented net of valuation allowance for losses. The following analysis summarizes the changes in the allowance for losses for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 799,104	\$ 1,216,087
Provision for losses	1,252,576	1,262,726
Net charge-offs	(1,485,913)	(1,679,709)
Balance, end of year	<u>\$ 565,767</u>	<u>\$ 799,104</u>

(12) Deposits

Total deposits as of December 31 consisted of:

	<u>2007</u>	<u>2006</u>
Noninterest bearing deposits	\$ 120,082,912	\$ 140,321,373
Interest-bearing deposits:		
NOW & Money Market	60,893,298	62,672,648
Savings	131,604,327	156,069,357
Regular CD's & IRAS	92,544,566	95,396,084
Jumbo CD's	251,360,899	224,741,161
Brokered deposits	1,336,560,312	1,226,155,584
	<u>1,872,963,402</u>	<u>1,765,034,834</u>
Total Deposits	<u>\$ 1,993,046,314</u>	<u>\$ 1,905,356,207</u>

Broker deposits do not represent concentration risk for the Company, they are large-denomination CDs sold by a bank to a brokerage firm, which divides them into smaller pieces for sale to its customers. The Company currently uses more than twelve brokers in the United States. Interest expense on time deposits over \$100,000 amounted to approximately \$75,467,000 and \$58,352,000 for the years ended December 31, 2007 and 2006, respectively.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

At December 31, 2007, the scheduled maturities of time deposits are as follows:

	<u>Under \$100,000</u>	<u>Over \$100,000</u>	<u>Total</u>
2008	\$ 76,302,504	\$ 874,583,870	\$ 950,886,374
2009	6,962,622	400,877,163	407,839,785
2010	4,072,158	174,825,947	178,898,105
2011	1,573,113	73,797,110	75,370,223
2012	1,805,826	36,029,377	37,835,203
Thereafter	<u>1,620,561</u>	<u>31,925,000</u>	<u>33,545,561</u>
	92,336,785	1,592,038,467	1,684,375,252
Net premium (discount)	<u>144,700</u>	<u>(4,221,330)</u>	<u>(4,076,630)</u>
	\$ <u>92,481,485</u>	\$ <u>1,587,817,137</u>	\$ <u>1,680,298,622</u>

(13) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent short-term financing transactions with securities dealers and the Federal Home Loan Bank. The following table summarizes certain information on securities sold under agreements to repurchase:

	<u>2007</u>	<u>2006</u>
Amount outstanding at year-end	\$ 496,419,250	\$ 365,664,250
Maximum aggregate balance outstanding at any month-end	496,419,250	501,182,250
Average aggregate balance outstanding during the year	372,934,957	432,458,830
Weighted average interest rate for the year	5.04%	4.94%
Weighted average interest rate at year-end	4.60%	5.27%

The investment securities underlying such agreements were delivered to the dealer executing the agreement. These securities are included in the balance sheet since the dealers may have sold, loaned, or otherwise disposed of such securities in the normal course of business operations, but have agreed to resell to the Company substantially the same securities on the maturity dates of the agreements.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

The following table presents the borrowings associated with the repurchase transactions, their maturities, and weighted average interest rates. Also, it includes the amortized cost and approximate fair value of the underlying collateral as of December 31, 2007 and 2006:

2007				
	<u>Borrowing balance</u>	<u>Amortized cost of collateral</u>	<u>Fair value of collateral</u>	<u>Weighted average interest rate</u>
Obligation of U.S. government agencies and corporations:				
Within 30 days	\$ 87,402,044	\$ 88,676,804	\$ 88,809,268	4.76%
After 90 days	18,390,328	29,846,444	29,884,030	4.37%
	<u>105,792,372</u>	<u>118,523,248</u>	<u>118,693,298</u>	
Mortgage-backed securities:				
Within 30 days	64,700,750	61,687,720	61,767,766	4.54%
After 90 days	54,351,699	60,795,878	61,010,975	3.88%
	<u>119,052,449</u>	<u>122,483,598</u>	<u>122,778,741</u>	
Collateralized mortgage obligations:				
Within 30 days	57,616,456	50,649,887	50,730,968	4.89%
After 90 days	213,957,973	236,277,295	235,986,355	4.20%
	<u>271,574,429</u>	<u>286,927,182</u>	<u>286,717,323</u>	
	<u>\$ 496,419,250</u>	<u>\$ 527,934,028</u>	<u>\$ 528,189,362</u>	4.40%
2006				
	<u>Borrowing balance</u>	<u>Amortized cost of collateral</u>	<u>Fair value of collateral</u>	<u>Weighted average interest rate</u>
Obligation of U.S. government agencies and corporations:				
Within 30 days	\$ 62,538,705	\$ 67,514,240	\$ 66,521,653	5.33%
After 30 to 90 days	68,506,987	69,989,635	69,196,170	5.33%
After 90 days	12,875,612	15,242,634	15,146,484	5.12%
	<u>143,921,304</u>	<u>152,746,509</u>	<u>150,864,307</u>	
Mortgage-backed securities:				
After 30 to 90 days	525,565	593,748	591,138	5.44%
After 90 days	28,440,074	37,579,646	37,190,244	4.91%
	<u>28,965,639</u>	<u>38,173,395</u>	<u>37,781,383</u>	
Collateralized mortgage obligations:				
Within 30 days	35,930,545	68,512,290	67,425,239	5.33%
After 30 to 90 days	28,362,448	40,259,058	39,784,285	5.41%
After 90 days	128,484,314	176,606,918	173,219,241	4.79%
	<u>192,777,307</u>	<u>285,378,266</u>	<u>280,428,764</u>	
	<u>\$ 365,664,250</u>	<u>\$ 476,298,169</u>	<u>\$ 469,074,454</u>	5.11%

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(14) Advances from Federal Home Loan Bank (FHLB)

At December 31, the Company owed several advances to the FHLB as follows:

<u>Maturity</u>	<u>Interest rate range</u>	<u>2007</u>	<u>2006</u>
2007	5.20% to 5.45%	\$ —	\$ 8,200,000
2008	4.51%	30,000,000	—
2014	4.38%	453,926	507,420
		<u>\$ 30,453,926</u>	<u>\$ 8,707,420</u>

Interest rates are fixed for the term of each advance and are payable on the first business day of the following month when the original maturity of the note exceeds six months. In notes with original terms of six months or less, interest is paid at maturity. Interest payments during 2007 and 2006, amounted approximately to \$217,000 and \$963,000, respectively. Advances are secured by mortgage loans and securities pledged at the FHLB. As of December 31, 2007, based on the collateral pledged at the FHLB our borrowing potential of advances was approximately \$17,065,000.

(15) Derivative Financial Instruments

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to the variation of the fair value of an asset or a liability imputable to a particular risk that has effects on the net profit are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

The Company's objective in using derivatives is to manage interest rate risk exposure of the variable commercial loan portfolio and other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its fair value hedging strategy. Interest rate swaps designated as fair value hedges protect the Company against the changes in fair value of the hedged item over the life of the agreements without exchange of the underlying principal amount. The Company uses fair value hedges to protect against adverse changes in fair value of certain brokered certificates of deposit (CDs). The Company also uses options to mitigate certain financial risks as further described below. The Company's objective in using option contracts is to offset the risk characteristics of the specifically identified assets or liabilities to which the contract is tied.

Fair value hedges result in the immediate recognition in earnings of gains or losses on the derivative instrument, as well as corresponding losses or gains on the hedged item, to the extent they are attributable to the hedged risk. The ineffective portion of the gain or loss, if any, is recognized in current earnings.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

As of December 31, 2007 and 2006, the Company had the following derivative financial instruments outstanding:

	2007		2006	
	Notional amount	Fair value	Notional amount	Fair value
Libor-Rate interest rate swaps	\$ 30,800,000	\$ (415,176)	\$ 30,800,000	\$ (1,236,093)
	<u>\$ 30,800,000</u>	<u>\$ (415,176)</u>	<u>\$ 30,800,000</u>	<u>\$ (1,236,093)</u>
Purchased Option	\$ 25,000,000	\$ 3,950,000	\$ -	\$ -
	<u>\$ 25,000,000</u>	<u>\$ 3,950,000</u>	<u>\$ -</u>	<u>\$ -</u>
Written Option	\$ 25,000,000	\$ (3,950,000)	\$ -	\$ -
	<u>\$ 25,000,000</u>	<u>\$ (3,950,000)</u>	<u>\$ -</u>	<u>\$ -</u>

In February of 2007, the Corporation for the State Insurance Fund (FSE) for the Government of the Commonwealth of Puerto Rico invested approximately \$25,000,000 in a CD indexed to a global equity basket. The return on the CD equals 100% appreciation of the equity basket at maturity, approximately 5 years. To protect against adverse changes in fair value of the CD, the Company purchased an option that offsets changes in fair value of the global equity basket. Consistent with the guidance in SFAS 133, the equity-based return on the CD represents a written option and is bifurcated and accounted for separately from the debt host as a derivative. Both the embedded equity-based return derivative and the purchased option are adjusted to their respective fair values through earnings. As the values of the two derivatives are equal and offset each other, the net effect on earnings is zero. At December 31, 2007, \$3,950,000 was included in other assets and other liabilities related to the purchased option and equity-based return derivative.

As of December 31, 2007, the Company had four interest rate swap agreements, designated as fair value hedges, which converted \$28,382,000 of fixed rate time deposits to variable rate time deposits, of which \$10,316,000 will mature between 2010 and 2013 and \$18,066,000 will mature between 2018 and 2023 with semi-annual call options that match the call options on the swaps.

As of December 31, 2006, the Company had four interest rate swap agreements outstanding, which synthetically convert \$28,903,000 of fixed-rate time deposits to variable-rate (LIBOR-based) time deposits, of which \$10,371,000 will mature between 2010 and 2013 and \$18,532,000 will mature between 2018 and 2023. The time deposits have semi-annual call options, which match the call options on the swaps.

These interest rate swap agreements have been effective in achieving the economic objectives explained above. During the years ended December 31, 2007 and 2006, the net loss from fair value hedging ineffectiveness was considered inconsequential and reported within other non-interest income.

(16) Note Payable to Statutory Trust

On December 18, 2001, Eurobank Statutory Trust (the Trust) issued \$25,000,000 of floating rate Trust Preferred Capital Securities Series 1 due in 2031 with a liquidation amount of \$1,000 per security; with an option to redeem in five years. Distributions payable on each capital security was payable at an annual rate equal to 5.60% beginning on (and including) the date of original issuance and ending on (but excluding) March 18, 2002, and at an annual rate for each successive period equal to the three-month LIBOR, plus 3.60% with a ceiling rate of 12.50%. The capital securities of the Trust were fully and unconditionally guaranteed by EuroBancshares. EuroBancshares then issued \$25,774,000 of floating rate junior subordinated deferrable interest debentures to the Trust due in 2031. The terms of the debentures, which comprise substantially all of the assets of the Trust, were the same as the terms of the capital securities issued by the Trust. These debentures were fully and unconditionally guaranteed by the Bank. The Bank subsequently issued an unsecured promissory note to EuroBancshares for the issued amount and at an annual rate equal to that being paid on the Trust Preferred Capital Securities Series 1 due in 2031. On December 18, 2006 the Trust fully redeemed the Trust Preferred Capital Securities and in the same manner, EuroBancshares redeemed the floating rate junior subordinated deferrable interest debentures in the Trust with the inflows from the repayment of a

EUROBANCSHARES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****December 31, 2007 and 2006**

note payable from the Bank. On the redemption date, the Company charged to interest expense the write-off of approximately \$626,000 in unamortized placement costs.

On December 19, 2002, Eurobank Statutory Trust II (the Trust II) issued \$20,000,000 of floating rate Trust Preferred Capital Securities due in 2032 with a liquidation amount of \$1,000 per security; with an option to redeem in five years. Distributions payable on each capital security is payable at an annual rate equal to 4.66% beginning on (and including) the date of original issuance and ending on (but excluding) March 26, 2003, and at an annual rate for each successive period equal to the three-month LIBOR plus 3.25% with a ceiling rate of 11.75%. The capital securities of the Trust II are fully and unconditionally guaranteed by EuroBancshares. The Company then issued \$20,619,000 of floating rate junior subordinated deferrable interest debentures to the Trust II due in 2032. The terms of the debentures, which comprise substantially all of the assets of the Trust II, are the same as the terms of the capital securities issued by the Trust II. These debentures are fully and unconditionally guaranteed by the Bank. The Bank subsequently issued an unsecured promissory note to EuroBancshares for the issued amount and at an annual rate equal to that being paid on the Trust Preferred Capital Securities due in 2032.

Interest expense on notes payable to statutory trusts amounted to approximately \$1,794,000 and \$3,924,000 for the years ended December 31, 2007 and 2006, respectively.

(17) Commitments and Contingencies

The Company leases certain premises used in its operations under non-callable operating lease agreements expiring at various dates through 2032. The total future minimum lease payments and the related minimum future lease income, respectively, under the agreements (with initial or remaining lease terms in excess of one year), including rentals based upon increases in taxes and other costs, are approximately as follows:

	Minimum lease payments	Estimated lease income	Net
Years ending December 31:			
2008	\$ 1,742,000	\$ 235,000	\$ 1,507,000
2009	1,592,000	255,000	1,337,000
2010	1,547,000	255,000	1,292,000
2011	1,456,000	276,000	1,180,000
2012	1,322,000	—	1,322,000
Thereafter	16,145,000	—	16,145,000
	<u>\$ 23,804,000</u>	<u>\$ 1,021,000</u>	<u>\$ 22,783,000</u>

Rent expense, net of rent income, for the years ended December 31, 2007 and 2006 was approximately \$2,468,000 and \$2,357,000, respectively.

The Company is involved as plaintiff or defendant in a variety of routine litigation incidental to the normal course of business. Management believes based on the opinion of legal counsels, that it has adequate defense or insurance protection with respect to such litigations and that any losses there from, whether or not insured, would not have a material adverse effect on the results of operations or financial position of the Company.

(18) Sale of Receivables

During the years 2007 and 2006 the Company sold approximately \$16,706,000 and \$13,837,000 of mortgage loans, respectively. In addition, during the third quarter 2007, the Company sold \$298,000 in individual residential construction loans to other financial institution. The Company surrendered control of the mortgage loans receivables, including servicing rights, as defined by SFAS No. 140, and accounted for these transactions as a sale. The net proceeds from the sale of such loans amounted to approximately \$17,387,000 and \$14,237,000 during 2007 and 2006, respectively, resulting in a gain of approximately \$380,000 and \$400,000, respectively.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(19) Income Taxes

Puerto Rico income tax law does not provide for filing a consolidated income tax return; therefore, the income tax expense reflected in the accompanying consolidated statements of income represents the sum of the income tax expense of the individual companies. At December 31, 2007 and 2006, the Company's tax provision and related accounts are substantially those of its subsidiary Bank.

The Bank is subject to Puerto Rico income tax at statutory rates. Under the provisions of the Puerto Rico Internal Revenue Code of 1994, as amended, the Bank is subject to regular tax or the alternative minimum tax, whichever is higher. The excess of the alternative minimum tax over the regular income tax paid in any year is available to offset the regular income tax determined in future years, subject to certain limitations. Customarily, the effective tax rate could differ from the statutory rate primarily because interest income on certain U.S. and Puerto Rico securities is exempt from Puerto Rico income taxes.

The Bank is also subject to federal income tax on its U.S. source income. However, the Bank had no taxable U.S. income for the years ended December 31, 2007 and 2006. The Bank is not subject to federal income tax on U.S. treasury securities that qualify as portfolio interest, nor to the branch profit tax and the branch-level interest tax on such income.

The Company operates EBS Overseas, Inc., an international banking entity (IBE) subsidiary of the Bank that engage in investment securities, deposits, and other funding transactions outside Puerto Rico. The Company also has an IBE that operates as a division of the Bank under the name EBS International Bank. EBS International Bank was acquired under the name of BT international in connection with the acquisition of BankTrust and changed to EBS International Bank on September 27, 2005. The Company has continued to operate EBS International Bank as a division of Eurobank and does not have immediate plans to transfer its assets to our subsidiary, EBS Overseas, Inc. The revenues generated by these entities, net of related interest costs and operating expenses, are exempt from Puerto Rico taxes.

On May 13, 2006, the governor of Puerto Rico approved and signed Law No. 89, which imposes an additional transitory tax of 4.5% on taxable income. This tax is applicable to the Banking industry raising the maximum statutory tax rate to 43.5% for taxable years beginning after December 31, 2005 and ending on or before December 31, 2006. This law also states that for taxable years beginning after December 31, 2006, the maximum statutory tax rate will be 39%.

The approval of the additional transitory taxes of over the original maximum statutory tax rate of 39% as mentioned above, resulted in additional income tax expense of \$755,000 for the year ended December 31, 2006.

In addition, on May 16, 2006, the governor of Puerto Rico approved and signed Law No. 98, the "Law of the 2006's Extraordinary Tax." This law imposes a prepaid tax of 5% over the 2005 taxable net income by for profit partnerships and corporations with gross income over \$10.0 million. The Company could use the payment in equal portions as a tax credit in the income tax return for the taxable years beginning after December 31, 2006. No income tax expense was recorded in 2006 related to this law since such prepayment will be used as a tax credit in the income tax return of taxable years beginning after December 31, 2006.

On December 14, 2007, the governor of Puerto Rico approved and signed Law No. 197, which offers tax credits to financial institutions on the financing of qualified residential mortgages. These tax credits vary based on whether the property to be financed is an existing dwelling or a new construction and whether it will be occupied by the buyer or is acquired for investment purposes. The tax credits are limited, subject to certain restrictions, to a maximum of a 20% of the property's selling price, or \$25,000, whichever is lower. This law expires on June 30, 2008 or when the tax credits granted reach the total allotted amount of \$220.0 million, whichever occurs first.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Total income taxes for the years ended December 31, were as follows:

	<u>2007</u>	<u>2006</u>
Income tax (benefit) expense from operations	\$ (248,874)	\$ 6,283,010
Stockholders' equity for unrealized gain on investment securities	<u>278</u> <u>\$ (248,596)</u>	<u>1,654</u> <u>\$ 6,284,664</u>

During 2006, the Company purchased tax credits in connection to "Reinvestment in urban centers and historic zones" and "Recycling" laws. The tax credits of approximately \$3,757,000 were purchased at 10% discount resulting in a net disbursement of approximately \$3,382,000 and a tax benefit of approximately \$376,000.

The components of the income tax provision for the years ended December 31, were as follows:

	<u>2007</u>	<u>2006</u>
Current tax provision	\$ 4,388,064	\$ 7,342,480
Deferred tax provision	(4,636,938)	(683,744)
Benefit from purchased tax credit	<u>—</u>	<u>(375,726)</u>
Total income tax provision	<u>\$ (248,874)</u>	<u>\$ 6,283,010</u>

The difference between the income tax provision and the amount computed using the statutory rate at December 31, was due to the following:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Income tax at statutory rate	\$ 1,154,482	39.00%	\$ 6,218,279	43.50%
Net (benefit) expense of tax-exempt interest income, including International banking entities	(1,543,510)	(52.14)	156,713	1.10
Benefits from purchase of tax credits at discount	—	—	(375,726)	(2.63)
Non deductible Stock based compensation	95,940	3.24	66,708	0.47
(Allowance) disallowance of certain expenses for tax purposes and other items	<u>44,214</u>	<u>1.49</u>	<u>217,036</u>	<u>1.51</u>
	<u>\$ (248,874)</u>	<u>(8.41)%</u>	<u>\$ 6,283,010</u>	<u>43.95%</u>

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Bank's deferred tax assets and liabilities at December 31, were as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan and lease losses	\$ 10,973,471	\$ 7,385,368
Unrealized loss on securities available for sale	1,586	1,864
Other temporary differences	<u>1,061,016</u>	<u>1,283,014</u>
Deferred tax assets	<u>12,036,073</u>	<u>8,670,246</u>
Deferred tax liabilities:		
Deferred loan origination costs, net	(922,699)	(1,903,131)
Servicing assets	(47,203)	(196,711)
Fair value adjustments on loans	<u>(168,100)</u>	<u>(309,549)</u>
Deferred tax liabilities	<u>(1,138,002)</u>	<u>(2,409,391)</u>
Net deferred tax asset	<u>\$ 10,898,071</u>	<u>\$ 6,260,855</u>

In assessing the viability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The significant component of the deferred income tax benefits was the increase in the allowance for loan and lease losses. The following table summarizes the changes in the deferred tax asset for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	\$ 6,260,855	\$ 5,070,074
Deferred tax benefit	4,636,938	683,744
Amount charged to retained earnings - SAB 108	-	505,383
Effect of FAS 115 in other comprehensive income	<u>278</u>	<u>1,654</u>
Balance at the end of year	<u>\$ 10,898,071</u>	<u>\$ 6,260,855</u>

Unrecognized Tax Benefits

During the year ended December 31, 2007, the Company did not record any additions or reductions based on tax position of current or prior years. As of January 1, 2007, the Company had approximately \$750,000 of unrecorded tax positions. This total represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

Total amount of interest recorded in the income statement for the year ended December 31, 2007 was approximately \$44,000. Total accrued interest related to unrecorded tax positions as of December 31, 2007 was \$58,000. The Company is no longer subject to examination by taxing authorities for taxable years before 2003.

EUROBANCSHARES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****December 31, 2007 and 2006****(20) Stock Transactions**

During the year 2007 and 2006, the Company purchased 285,368 and 488,477 shares, respectively; under the stock repurchase programs approved by the Board of Directors in May 2007 and October 2005.

During 2007, the Company issued 254,862 of the common stock shares through stock options exercised, as follows:

<u>Date</u>	<u>Number of shares</u>	<u>Exercise Price</u>	<u>Total</u>
February-07	250,862	\$ 4.50	\$ 1,128,880
July-07	<u>4,000</u>	5.00	<u>20,000</u>
	<u>254,862</u>		<u>\$ 1,148,880</u>

On January 31, 2008, a total of 50,000 stock options were exercised at an exercise price of \$5.00.

(21) Preferred Stock

The Series A preferred stockholders are entitled to receive, when and if declared by the board of directors, monthly noncumulative cash dividends at an annual rate of 6.825%. The board of directors has no obligation to declare dividends on the Series A preferred stock in any dividend period. However, so long as any Series A preferred stock remains outstanding, there are certain limitations on the payment of dividends or distributions on common stock. The Series A preferred stock is not convertible or exchangeable for any other class of stock. At the Company's option, the stock is redeemable at its liquidation value, which equals at the option of the Company a redemption price of \$25.00 per share, plus accrued but unpaid dividends (noncumulative), which is equal to its liquidation value. The stock has no voting preferences and has no preemptive rights.

(22) Stock Option Plan

The stockholders of EuroBancshares approved the 2005 Stock Option Plan at the annual meeting held at the main office of the Company on May 12, 2005. The 2005 Stock Option Plan has reserved 700,000 shares of our common stock for issuance pursuant to the stock options. Once the 2005 Stock Options Plan was approved, no further options were available to acquire shares under the 2002 Stock Option Plan. The outstanding options as of December 31, 2007 included options granted under the 2002 and 2005 Stock Option Plan.

All employees and directors of EuroBancshares are eligible under the Plan, provided, however, that stock options shall not be exercisable by an optionee who is the owner of 5% or more of the issued and outstanding shares of the Company or in exercising the stock options would become the owner of 5% or more of the issued and outstanding shares of the Company, unless the optionee obtains the approvals required from the appropriate regulatory agencies to hold shares in excess of such percent. Any eligible person may hold more than one option at a time.

The Compensation Committee, appointed by the board of directors, has absolute discretion to select which of the eligible persons will be granted stock options, the number of shares of the Company's common stock subject to such options, whether stock appreciation rights will be granted for such options, and generally, to determine the terms and conditions of such options in accordance to the provisions of the Plan.

On February 26, 2007 and December 31, 2007, the Company granted to its directors and executive officers, a total of 80,670 options and 120,500 options, respectively, under the established 2005 stock option plan. Of these options, 61,670 stock options were granted to directors and were vested immediately. The remaining 139,500 stock options were granted to employees vesting in five equal annual installments beginning on February 26, 2007 and December

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

31, 2008, respectively. These options have an exercise price of \$8.60 and \$4.00, respectively, and are exercisable within ten years after the grant date at the discretion of the optionee.

On March 1, 2006, the Company granted to its directors and executive officers, a total of 98,700 options, under the established 2005 stock option plan. Of these options, 16,000 stock options were granted to directors and were vested immediately. The remaining 82,700 stock options were granted to employees vesting in five equal annual installments beginning on March 1, 2007. These options have an exercise price of \$14.17 and are exercisable within ten years after the grant date at the discretion of the optionee.

All options granted prior to December 31, 2005, were fully vested at grant date and are exercisable at the discretion of the optionee within five years after the grant date.

The fair value of the options granted was estimated on the date of the grants using the Black-Sholes Option Pricing Model. In 2007, the expected term of share options granted was determined using the simplified method approach allowed under Staff Accounting Bulletin No. 107 and No. 110. Expected volatilities were based on historical volatility of the Company's shares and the average volatility of similar and comparable entities due to the short period of public history of the Company's shares in comparison with the expected term of share options. Also, expected volatilities considered other factors, such as expected changes in volatility arising from planned changes in the Company's operations. The weighted average assumptions used for the grants issued were:

	2007	2006
Expected life of options (in years)	6.04	6.26
Expected volatility	37.14%	39.28%
Expected dividends	0.00%	0.00%
Risk-free rate	3.96%	4.60%

A summary of the activity in the stock option plan for 2007 follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Options outstanding January 1	1,063,162	\$ 7.72		
Granted	201,170	5.84		
Exercised	(254,862)	4.51		
Forfeited	(10,900)	21.00		
Outstanding at end of year	998,570	\$ 8.02	3.10	\$ —
Exercisable at end of year	805,630	\$ 7.92	1.63	\$ —

Information related to the stock option plan during each year follows:

	2007	2006
Intrinsic value of options exercised	\$ 1,043,134	\$ 1,579,530
Cash received from option exercises	1,148,880	879,764
Tax benefit realized from option exercises	-	-
Weighted average fair value of options granted	2.53	5.65

EUROBANCSHARES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

December 31, 2007 and 2006

At December 31, 2007 there was approximately \$574,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 3.93 years.

(23) Earnings Per Share

The computation of earnings per share is presented below:

	<u>2007</u>	<u>2006</u>
Net income before extraordinary item and preferred stock dividends	\$ 3,209,083	\$ 8,011,885
Dividend declared to preferred shareholders	<u>(744,805)</u>	<u>(744,805)</u>
Net income available to common shareholders	<u>\$ 2,464,278</u>	<u>\$ 7,267,080</u>
Weighted average number of common shares outstanding applicable to basic earnings per share	19,212,801	19,217,178
Effect of dilutive securities	<u>178,837</u>	<u>440,381</u>
Adjusted weighted average number of common shares outstanding applicable to diluted earnings per share	<u>19,391,639</u>	<u>19,657,559</u>
Basic earnings per share:		
Net income	<u>\$ 0.13</u>	<u>\$ 0.38</u>
Diluted earnings per share:		
Net income	<u>\$ 0.13</u>	<u>\$ 0.37</u>

In computing diluted earnings per common share for 2007, stock options of 174,000, 80,670, 78,800 and 98,600 shares on common stock with exercise price of \$8.13, \$8.60, \$14.17 and \$21.00, respectively, were not considered because they were antidilutive. For 2006, stock options of 78,800 and 113,500 shares on common stock with exercise price of \$14.17 and \$21.00, respectively, were not considered because they were antidilutive.

(24) Employees' Benefit Plan

The Company maintains a defined contribution plan covering substantially all its employees after three months of service. Under the provisions of the plan, employees can elect to contribute to the plan up to 10% limited to \$8,000 of their compensation and the Company matches 100% of the amount contributed by the employees up to a maximum of 3% limited to \$3,000 of the employees' annual compensation. The amount of contribution expense recognized by the Company for the years ended December 31, 2007 and 2006 amounted to approximately \$275,000 and \$277,000, respectively.

(25) Related-Party Transactions

The Company makes loans to its directors, principal stockholders, officers, employees, organizations, and individuals associated with them in the normal course of business. At December 31, 2007 and 2006, loans outstanding with these parties amounted to approximately \$13,300,000 and \$8,386,000, respectively.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

The summary of changes in the related-party loans follows:

	Executive officers and related parties	Directors and related parties	Employees	Principal shareholders and related parties	Total
Balance at December 31, 2005	\$ 398,486	\$ 3,078,086	\$ 1,662,536	\$ —	\$ 5,139,108
Additions	115,626	3,103,758	2,262,566		5,481,950
Reductions	(334,397)	(920,636)	(979,568)		(2,234,601)
Balance at December 31, 2006	179,715	5,261,208	2,945,534	—	8,386,457
Additions	35,928	6,960,624	708,470		7,705,022
Reductions	(85,980)	(1,848,412)	(856,693)		(2,791,085)
Balance at December 31, 2007	\$ 129,663	\$ 10,373,420	\$ 2,797,311	\$ —	\$ 13,300,394

Deposits of approximately \$15,826,000 and \$12,704,000 from these parties were outstanding as of December 31, 2007 and 2006, respectively.

During 2007, the Company leased three facilities from corporations controlled by three directors. One of these lease agreement expired in July 2007. The rent expense related to these lease agreements amounted to approximately \$242,000 and \$221,000 for the years 2007 and 2006, respectively

(26) Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers, such as commitments to extend credit, approved loans not yet disbursed, unused lines of credit, and stand-by letters of credit. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amount reflects the extent of involvement the Company has in this particular class of financial instrument.

The Company's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual notional amount of those instruments. The Company uses some credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Unless noted otherwise, the Company requires collateral or other security to support financial instruments with credit risk. The Company performs its normal credit granting due diligence procedures, to the extent necessary, in evaluating its involvement in financial instruments with credit risk.

At December 31, the approximate contract or notional amount of the Company's financial instruments with off-balance-sheet risk were as follows:

	2007	2006
Financial instruments whose contract amounts represent credit risk – stand-by and commercial letters of credit	\$ 15,066,000	\$ 9,351,000
Commitments to extend credit, approved loans not yet disbursed, and unused lines of credit:		
Variable rate	221,111,000	276,204,000
Fixed rate	30,270,000	23,156,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unused lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Commercial and stand-by letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All guarantees expire within a year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds certificates of deposit as collateral supporting those commitments for which collateral is deemed necessary.

(27) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments in accordance with SFAS No. 107, as amended by SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*.

(a) Cash and Due from Banks, Interest-Bearing Deposits, and Securities Purchased under Agreements to Resell

The carrying amount of cash and due from banks, interest-bearing deposits, and securities purchased under agreements to resell is a reasonable estimate of fair value, due to the short maturity of these instruments.

(b) Investment Securities

The fair value of investment securities available for sale and held to maturity are estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

(c) Other Investments

The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB. The carrying value of equity interest in unconsolidated statutory trust approximates the fair value of the residual equity in the trust.

(d) Loans and Loans Held for Sale

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, consumer, mortgage, and other loans. Each loan category is further segmented into fixed and adjustable interest rate terms.

The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan.

The estimate of fair value of loans considers the credit risk inherent in the portfolio through the allowance for loan and lease losses. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific-borrower information.

(e) Accrued Interest Receivable

The carrying amount of accrued interest receivable is a reasonable estimate of its fair value, due to the short-term nature of the instruments.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(f) Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, money market, and checking accounts is equal to the amount payable on demand as of December 31, 2007 and 2006. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rate currently offered for deposits of similar remaining maturities.

(g) Securities Sold under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase are estimated using discounted cash flow analysis using rates for similar types of borrowing arrangements.

(h) Advances from Federal Home Loan Bank

The fair value of advances from Federal Home Loan Bank is calculated by discounted scheduled cash flows through the estimated maturity using market discount rates.

(i) Note Payable to Statutory Trust

The carrying amount of the outstanding note payable to statutory trust approximates its fair value due to their variable interest rate.

(j) Accrued Interest Payable

The carrying amount of accrued interest payable is a reasonable estimate of fair value, due to the short-term nature of the instruments.

(k) Derivatives

Derivative instruments were recorded on the balance sheet at their respective fair values. The fair value of derivatives reflects the estimated amounts that would be paid or received to terminate these contracts at the reporting date based upon pricing or valuation models applied to current market information. Interest rate swaps are valued using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates derived from observable market interest rate curves. The options are valued using the market standard methodology of calculating the basket average closing level of each underlying index on the observation dates less the average closing level of each underlying index at the initial date, divided by the average closing level of each underlying index at the initial date.

(l) Commitments to Extend Credit and Letters of Credit

The fair value of commitments to extend credit and letters of credit was not readily available and not deemed significant.

(m) Limitations

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. As described for investments and mortgage-backed securities, the tax

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

ramifications related to the realization of the unrealized gains and losses may have a significant effect on fair value estimates and have not been considered in many of the estimates.

Following are the carrying amount and fair value of financial instruments as of December 31:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from banks	\$ 15,866,221	\$ 15,866,221	\$ 25,527,489	\$ 25,527,489
Interest-bearing deposits	32,306,909	32,306,909	49,050,368	49,050,368
Securities purchased under agreements to resell	19,879,008	19,879,008	51,191,323	51,191,323
Investment securities available for sale	707,103,432	707,103,432	535,159,009	535,159,009
Investment securities held to maturity	30,845,218	30,451,926	38,432,820	37,473,773
Other investments	13,354,300	13,354,300	4,329,200	4,329,200
Loans held for sale	1,359,494	1,359,494	879,000	879,000
Loans, net	1,829,082,008	1,819,152,795	1,731,022,290	1,717,238,967
Derivatives - Purchased Option	3,950,000	3,950,000	—	—
Accrued interest receivable	18,136,489	18,136,489	15,760,852	15,760,852
Financial liabilities:				
Deposits	1,993,046,314	2,013,817,980	1,905,356,207	1,900,249,949
Securities sold under agreements to repurchase	496,419,250	495,224,506	365,664,250	363,509,336
Advances from FHLB	30,453,926	30,445,061	8,707,420	8,663,848
Note payable to statutory trust	20,619,000	20,627,779	20,619,000	20,619,000
Accrued interest payable	17,371,698	17,371,698	18,047,074	18,047,074
Derivatives - Interest Rate Swaps	415,176	415,176	1,236,093	1,236,093
Derivatives - Written Option	3,950,000	3,950,000	—	—

(28) Significant Group Concentrations of Credit Risk

Most of the Company's business activities are with customers located within Puerto Rico. The Company has a commercial, industrial, and leasing loan portfolio with no significant concentration in any economic sector.

The Company reviews the subprime lending characteristics from the borrowers of the lease portfolio. From this analysis the Company determined that the behavior of the borrowers with subprime lending characteristics does not differ from other risk categories of the lease portfolio.

(29) Regulatory Matters

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Quantitative measures established by regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (Leverage) (as defined). Management believes that as of December 31, 2007 and 2006, the Company and the Bank met all capital adequacy requirements to which they were subject.

The most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I Leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the institution's capital category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are also presented in the following table.

At December 31, required and actual regulatory capital amounts and ratios are as follow (dollars in thousands):

2007					
	Required amount	Ratio	Actual amount	Ratio	Well capitalized ratio
Total Capital (to risk-weighted assets):					
Consolidated	\$ 166,720	8.00%	\$ 224,873	10.79%	N/A
Eurobank	166,719	8.00%	224,137	10.76%	≥ 10.00%
Tier I Capital (to risk-weighted assets):					
Consolidated	83,360	4.00%	198,793	9.54%	N/A
Eurobank	83,360	4.00%	198,057	9.50%	≥ 6.00%
Tier I Capital (to average assets):					
Consolidated	105,308	4.00%	198,793	7.55%	N/A
Eurobank	105,282	4.00%	198,057	7.52%	≥ 5.00%
2006					
	Required amount	Ratio	Actual amount	Ratio	Well capitalized ratio
Total Capital (to risk-weighted assets):					
Consolidated	\$ 154,038	8.00%	\$ 216,673	11.25%	N/A
Eurobank	154,045	8.00%	198,179	10.29%	≥ 10.00%
Tier I Capital (to risk-weighted assets):					
Consolidated	77,019	4.00%	197,366	10.25%	N/A
Eurobank	77,023	4.00%	178,871	9.29%	≥ 6.00%
Tier I Capital (to average assets):					
Consolidated	99,679	4.00%	197,366	7.92%	N/A
Eurobank	99,637	4.00%	178,871	7.18%	≥ 5.00%

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(30) Parent Company Financial Information

The following condensed financial information presents the financial position of EuroBancshares as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006.

Condensed Balance Sheets:

	<u>2007</u>	<u>2006</u>
	(In thousands)	
Assets		
Dividend receivable from non bank subsidiaries	\$ 1	\$ 1
Dividend receivable from Eurobank	27	17,998
Investment in Eurobank	199,182	171,384
Investment in other subsidiaries	1,356	1,141
Prepaid expenses	<u>9</u>	<u>8</u>
Total assets	<u>\$ 200,575</u>	<u>\$ 190,532</u>
Liabilities and Stockholders' Equity		
Due to non bank subsidiary	\$ 10	\$ 10
Notes payable to subsidiaries	20,619	20,619
Accrued interest payable to non bank subsidiaries	<u>28</u>	<u>25</u>
Total liabilities	20,657	20,654
Stockholders' equity	<u>179,918</u>	<u>169,878</u>
Total liabilities and stockholders' equity	<u>\$ 200,575</u>	<u>\$ 190,532</u>

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Condensed Statement of Income:

	<u>Year ended December 31</u>	
	<u>2007</u>	<u>2006</u>
	(In thousands)	
Income:		
Interest on note receivable from Eurobank	\$ -	\$ 1,399
Dividend from preferred stocks of		
Eurobank	1,740	2,407
Dividend income from non bank subsidiaries	54	118
Total interest income	<u>1,794</u>	<u>3,924</u>
Interest on note payable to subsidiaries	<u>1,794</u>	<u>3,924</u>
Net interest income	-	-
Equity in undistributed earnings of subsidiaries	3,231	8,026
Noninterest expense	22	14
Earnings before income taxes	<u>3,209</u>	<u>8,012</u>
Provision for income taxes	-	-
Net income	<u>\$ 3,209</u>	<u>\$ 8,012</u>

EUROBANCSHARES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

Condensed Statements of Cash Flows:

	Year ended December 31	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 3,209	\$ 8,012
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in net earnings of subsidiaries	(3,232)	(8,026)
(Increase) decrease in accrued interest and dividend receivable from subsidiaries	(3)	79
Increase in prepaid expenses	(2)	(3)
Increase (decrease) in accrued interest payable to subsidiaries	3	(79)
Net cash used in operating activities	(24)	(17)
Cash flows from investing activities:		
Advance to Subsidiary	(1,149)	(880)
Decrease in due from Eurobank	3,276	31,228
Net cash provided by investing activities	2,127	30,348
Cash flows from financing activities:		
Decrease in due to Eurobank	(7)	—
Dividends on preferred stocks	(745)	(746)
Repayment of Trust Preferred Securities	—	(25,000)
Proceeds from issuance of common stock	1,149	880
Purchase and retirement of common stock	(2,500)	(5,465)
Net cash used in financing activities	(2,103)	(30,331)
Net increase (decrease) in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of year	—	—
Cash and cash equivalents, end of year	\$ —	\$ —



State Road PR-1, Km. 24.5
Quebrada Arenas Ward
San Juan, Puerto Rico 00926
(787) 751-7340

April 22, 2008

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of EuroBancshares, Inc. The meeting will be held on Thursday, May 22, 2008, at 10:00 a.m., local time, at the main office of EuroBancshares located at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926.

We are pleased to enclose the proxy statement for the 2008 annual meeting of the stockholders of EuroBancshares. Also enclosed is a proxy card for the purpose of voting your shares of common stock of EuroBancshares and a self-addressed stamped envelope for returning the proxy card to EuroBancshares in advance of the meeting. At the meeting, you and the other stockholders will be asked to vote on the following matters:

1. The election of three directors assigned to Class C of the Board of Directors of EuroBancshares for a three year term expiring at the 2011 annual meeting of stockholders or until their successors are duly elected and qualified; and
2. The transaction of such other business as may properly come before the annual meeting or at any adjournment or postponement thereof.

Our Board of Directors believes that an affirmative vote for all nominees named in the proxy statement to serve as the directors of EuroBancshares is in the best interests of EuroBancshares and its stockholders and has unanimously recommended that the stockholders of EuroBancshares vote in favor of the nominees.

I hope that you will be able to attend the annual meeting to vote on this matter. **Whether or not you expect to attend the meeting in person, please mark your vote with respect to the nominees for director on the enclosed proxy card and sign and date the proxy card. Mailing the completed proxy card to EuroBancshares as soon as possible in the enclosed, self-addressed, stamped envelope will help to ensure that your shares of stock will be represented and voted in accordance with your wishes at the annual meeting.**

In addition to the proxy statement, proxy card and voting instructions, a copy of EuroBancshares' Annual Report and Form 10-K for the year ended December 31, 2007, which is not part of the proxy soliciting material, is enclosed.

We appreciate your interest and investment in EuroBancshares and look forward to seeing you at the annual meeting.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Arrillaga Jr.", with a stylized flourish at the end.

Rafael Arrillaga-Torréns, Jr.
Chairman of the Board, President and Chief
Executive Officer

This proxy statement and the accompanying proxy card are being mailed to the stockholders of EuroBancshares, Inc. beginning on or about April 22, 2008.



State Road PR-1, Km. 24.5
Quebrada Arenas Ward
San Juan, Puerto Rico 00926
(787) 751-7340

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Thursday, May 22, 2008

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of EuroBancshares, Inc. for the year 2008 will be held at 10:00 a.m., local time, on Thursday, May 22, 2008, at the main office of EuroBancshares located at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926, to consider and act upon the following matters:

1. The election of three directors assigned to Class C of the Board of Directors of EuroBancshares for a three year term expiring at the 2011 annual meeting of stockholders or until their successors are duly elected and qualified; and
2. The transaction of such other business as may properly come before the annual meeting or at any adjournment or postponement thereof. Except with respect to the procedural matters incident to the conduct of the meeting, we are not aware of any other business to be brought before the meeting.

Only stockholders of record as of the close of business on March 31, 2008 are entitled to notice of, and to vote at, the annual meeting or any adjournments thereof. A list of stockholders will be available for inspection for a period of 10 days prior to the annual meeting at the office of EuroBancshares at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico, and will also be available for inspection at the meeting itself.

By Order of the Board of Directors

A handwritten signature in cursive script, appearing to read "Yadira Mercado", is written over a horizontal line.

San Juan, Puerto Rico
April 22, 2008

Yadira R. Mercado Piñeiro
Secretary

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. HOWEVER, WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, WE URGE YOU TO SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AT YOUR EARLIEST CONVENIENCE. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE ANNUAL MEETING AND THAT YOUR SHARES ARE VOTED IN ACCORDANCE WITH YOUR WISHES. FOR YOUR CONVENIENCE, WE HAVE ENCLOSED A POSTAGE PAID ENVELOPE FOR THE RETURN OF YOUR PROXY. YOUR PROMPT RESPONSE WILL HELP REDUCE THE COST OF SOLICITING PROXIES, WHICH ARE PAID FOR BY EUROBANCSHARES.

TABLE OF CONTENTS

	<u>Page</u>
ABOUT THE ANNUAL MEETING	1
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	4
ELECTION OF DIRECTORS	6
Nominees.....	6
Other Directors and Executive Officers	7
CORPORATE GOVERNANCE REFORMS	9
Corporate Governance Principles and Board Matters	10
Committees of EuroBancshares	12
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS	15
COMPENSATION DISCUSSION AND ANALYSIS	17
REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS.....	24
EXECUTIVE COMPENSATION.....	25
Summary Compensation Table	25
Grants of Plan-Based Awards	26
Outstanding Equity Awards at Fiscal Year-End.....	27
Option Exercises	28
Payments Made Upon Termination of Employment	28
Termination upon a Change in Control	29
Termination for Retirement, Death, Disability or Without Cause.....	30
Termination With Cause	30
Stock Option Plan.....	30
Change in Control Agreements	32
Employment Agreements	32
Health and Insurance Benefits.....	33
Eurobank Master Trust Retirement Plan Program for Employees	33
Restricted Stock Grants	33
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	33
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.....	34
INDEPENDENT PUBLIC ACCOUNTANTS.....	35
OTHER MATTERS	37
STOCKHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING OF STOCKHOLDERS	38
ADDITIONAL INFORMATION	39
APPROVAL OF THE BOARD OF DIRECTORS	39

EUROBANCSHARES, INC.
State Road PR-1, Km. 24.5
Quebrada Arenas Ward
San Juan, Puerto Rico 00926

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON THURSDAY, MAY 22, 2008

This proxy statement contains information related to the annual meeting of stockholders of EuroBancshares, Inc. to be held on Thursday, May 22, 2008, beginning at 10:00 a.m., local time, at the main office of EuroBancshares located at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926 and at any postponements or adjournments thereof. EuroBancshares anticipates that this proxy statement and the accompanying proxy card will be mailed to stockholders commencing on or about April 22, 2008.

ABOUT THE ANNUAL MEETING

Who is soliciting my proxy?

Our Board of Directors is sending you this proxy statement in connection with the solicitation of proxies for use at the 2008 annual meeting of the stockholders of EuroBancshares. Certain of our directors, officers, and employees may also solicit proxies on our behalf by mail, telephone, facsimile or in person.

Who will bear the costs of soliciting proxies for the annual meeting?

We will bear the cost of soliciting proxies for the annual meeting. We have retained American Stock Transfer & Trust Company, who acts as our transfer agent and registrar, to assist us in the solicitation of proxies for the annual meeting. The fee to be paid to this firm for these services is expected to be approximately \$4,000, plus reimbursement of all reasonable out-of-pocket expenses. We will also reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in sending proxy materials to the beneficial owners of our shares of common stock. In addition to solicitations by mail, our directors, officers and employees, including those of our subsidiaries, may solicit proxies personally, by telephone or otherwise, but will not receive any additional compensation for their services.

What is the purpose of the annual meeting?

At the annual meeting, stockholders will be voting on the election of three directors assigned to Class C of the Board of Directors for a three year term expiring at the 2011 annual meeting of stockholders or until their successors are duly elected and qualified. In addition, our management will report on the performance of EuroBancshares during 2007 and respond to appropriate questions from stockholders. Except with respect to the procedural matters incident to the conduct of the meeting, we are not aware of any other business to be brought before the meeting.

Who is entitled to vote at the annual meeting?

Only stockholders of record as of the close of business on the record date, March 31, 2007, are entitled to receive notice of the annual meeting and to vote the shares of common stock that they held on that date at the annual meeting or any postponement or adjournment thereof. Each outstanding share of our common stock entitles its holder to cast one vote on each matter to be voted upon at the annual meeting. The total number of shares of our common stock outstanding on the record date and eligible to cast votes at the annual meeting is 19,500,315. On the record date, there were outstanding 430,537 shares of our 6.825% noncumulative preferred stock, series A, par value \$0.01 per share. The shares of our series A preferred stock are not entitled to vote at the annual meeting.

Please note that if you hold your shares in "street name" (that is, through a broker or other nominee), you will need to bring appropriate documentation from your broker or nominee to personally vote at the annual meeting.

How many votes must be present to hold the annual meeting?

The presence at the annual meeting, in person or by proxy, of the holders of one-third of the shares of common stock outstanding on the record date, or 6,500,105 shares, will constitute a quorum at the annual meeting. For purposes of determining a quorum, proxies received but marked as abstentions and broker non-votes will be treated as shares that are present and entitled to vote. A broker non-vote occurs when a broker or other nominee indicates that it does not have discretionary authority to vote on a particular matter.

How do I vote?

You may vote your shares either in person at the annual meeting or by proxy whether or not you attend the annual meeting. Shares held in your name as the stockholder of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. *Even if you plan to attend the annual meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.*

To vote by proxy, you should mark, date, sign, and mail the enclosed proxy card in the postage-paid envelope. Granting a proxy will not affect your right to vote your shares if you attend the annual meeting and want to vote in person; by voting in person you will revoke your proxy. You may also revoke your proxy at any time before the vote at the meeting by providing our Corporate Secretary written notice of your revocation or by submitting a proxy bearing a later date. If you return your proxy but do not mark your voting preferences, the proxy holders will vote your shares **FOR** the election of each of the nominees for Class C director.

Can I change my vote?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to our Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

How are votes counted?

In the election of directors, you may vote "FOR" all of the nominees or your vote may be "WITHHELD" with respect to one or more of the nominees. If your vote is withheld with respect to any nominee, your shares will be counted for purposes of establishing a quorum, but will have no effect on the election of that nominee. If you abstain from voting on any other proposals, your shares will be counted for purposes of establishing a quorum, and the abstention will have the same effect as a vote against the proposal.

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of our Board of Directors ("FOR" all of EuroBancshares' nominees to the Board of Directors and in the discretion of the proxy holders on any other matters that properly come before the annual meeting).

What vote is required to elect directors?

The affirmative vote of a plurality of the votes cast in person or by proxy at the annual meeting is required for the election of directors. A properly executed proxy marked "WITHHELD" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes

of determining whether there is a quorum. Abstentions and broker non-votes will have no legal effect on the election of directors.

Can I vote on other matters?

The matters presented at an annual meeting are limited to those properly presented by the Board of Directors and those properly presented by stockholders. We have not received notice from any stockholder as to any matter to come before the annual meeting. If any other matter is presented at the annual meeting, your signed proxy gives Rafael Arrillaga-Torréns, Jr. and Ricardo Levy Echeandía, the proxy holders, authority to vote your shares.

How does the Board of Directors recommend I vote on the proposal?

Unless you give other instructions on your proxy card, Rafael Arrillaga-Torréns, Jr. and Ricardo Levy Echeandía, the proxy holders, will vote in accordance with the recommendations of our Board of Directors. Our Board of Directors recommends a vote **FOR** the election of the nominated slate of directors.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by our Board of Directors, or if no recommendation is given, in their own discretion.

Who can help answer my questions?

If you have any questions about the annual meeting or how to vote or revoke your proxy, or if you should need additional copies of this proxy statement or voting materials, please contact:

Yadira R. Mercado Piñeiro
Executive Vice President, Chief Financial Officer and Corporate Secretary
State Road PR-1, Km. 24.5
Quebrada Arenas Ward
San Juan, Puerto Rico 00926
(787) 751-7340

How do I get copies of the exhibits filed with EuroBancshares' Form 10-K?

A copy of EuroBancshares' Annual Report on Form 10-K for 2007 and consolidated financial statements, was delivered to you with this proxy statement. EuroBancshares will provide to any stockholder as of the record date, who so specifically requests in writing, copies of the exhibits filed with EuroBancshares' Form 10-K for a reasonable fee. Requests for such copies should be directed to Corporate Secretary, EuroBancshares, Inc., State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926. In addition, copies of all exhibits filed electronically by EuroBancshares may be reviewed and printed from the SEC's website at: www.sec.gov.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership based on 19,500,315 shares of common stock outstanding as of March 31, 2008 by (1) each stockholder known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (2) each of our directors, (3) each of our named executive officers, and (4) all of our directors and named executive officers as a group.

Beneficial ownership is determined according to the rules of the SEC and generally includes any shares over which a person possesses sole or shared voting or investment power and options that are currently exercisable or exercisable within 60 days. Each director, officer or 5% or more stockholder, as the case may be, has furnished to us information with respect to beneficial ownership. Except as otherwise indicated in the footnotes to this table, we believe that the beneficial owners of common stock listed below, based on information each of them has provided to us, have sole investment and voting power with respect to their shares.

Shares of common stock subject to options currently exercisable or exercisable within 60 days of March 31, 2008 are deemed outstanding for the purpose of calculating the percentage ownership of the person holding these options, but are not treated as outstanding for the purpose of calculating the percentage ownership of any other person. Unless otherwise noted, the address for each stockholder listed below is: c/o EuroBancshares, Inc., State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926.

<u>Name and address of Beneficial Owner</u>	<u>Amount and nature of beneficial ownership</u>	<u>Percent of class</u>
Greater than 5% stockholders:		
FMR LLC ⁽¹⁾ 82 Devonshire Street Boston, Massachusetts	1,103,421	5.78%
Juan Gómez-Cuétara Fernández ⁽²⁾ Andrés Llorente 1-3A Alcalá de Henáres Madrid, Spain	1,108,682	5.69%
Fideicomiso González Muñoz ⁽³⁾ 270 Muñoz Rivera Avenue Mezzanine Hato Rey, Puerto Rico 00918	1,652,746	8.48%
Directors and Named Executive Officers:		
Rafael Arrillaga-Torréns, Jr.	626,651 ⁽⁴⁾	3.20%
Yadira R. Mercado Piñeiro	189,822 ⁽⁵⁾	*
Luis J. Berrios López	3,520 ⁽⁶⁾	*
José Del Río Jiménez	—	*
Jaime Noble Fernández	106,200 ⁽⁷⁾	*
Antonio R. Pavía Bibiloni	86,806 ⁽⁸⁾	*
Jaime Sifre Rodríguez	20,000	*
Juan Ramón Gómez-Cuétara Aguilar	8,745 ⁽⁹⁾	*
Luis F. Hernández Santana	8,525 ⁽¹⁰⁾	*
Pedro Feliciano Benítez	5,434,386 ⁽¹¹⁾	27.85%
Plácido González Córdova	303,658 ⁽¹²⁾	1.56%
Ricardo Levy Echeandía	820,854 ⁽¹³⁾	4.21%
William Torres Torres	561,650 ⁽¹⁴⁾	2.88%
All directors and executive officers as a group (13 persons)	8,170,817 ⁽¹⁵⁾	41.25%

* Represents less than 1% of total shares outstanding.

- (1) The information regarding beneficial ownership is included in reliance on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2008 by FMR LLC. FMR LLC reported that it has the sole power to dispose or direct the disposition of all 1,103,421 shares.
- (2) Juan Ramón Gómez-Cuétara Fernández is the father of director Juan Ramón Gómez-Cuétara Aguilar. Mr. Gómez-Cuétara Fernández personally owns 122,112 shares of our common stock. In addition, a foreign corporation wholly owned by him owns 986,570 shares of our common stock.
- (3) On January 15, 2008, Plácido González Córdova transferred 1,652,746 shares by gift to the Fideicomiso González Muñoz, a fiduciary trust for the benefit of Mr. González's grandchildren, as part of Mr. González's estate planning. No consideration was paid by the trust to Mr. González for the gift of these shares. Mr. González is not a trustee of the trust and does not have any pecuniary interest in the trust.
- (4) Includes 52,974 shares of common stock held by Mr. Arrillaga's wife and 90,560 stock options that are presently exercisable.
- (5) Includes 80,760 stock options that are presently exercisable.
- (6) Includes 2,000 stock options that are presently exercisable.
- (7) Includes 61,400 stock options that are presently exercisable.
- (8) Includes 12,000 stock options that are presently exercisable.
- (9) Includes 6,835 stock options that are presently exercisable.
- (10) Includes 6,835 stock options that are presently exercisable.
- (11) Includes 12,000 stock options that are presently exercisable.
- (12) Includes 28,658 shares of our common stock held by a corporation controlled by Mr. González and 12,000 stock options that are presently exercisable. Does not include 5,571 shares owned by Mr. González's daughter. Mr. González disclaims voting and investment powers over the shares owned by his daughter. On January 15, 2008, Mr. González transferred 1,652,746 shares by gift to the Fideicomiso González Muñoz, a fiduciary trust for the benefit of Mr. González's grandchildren, as part of Mr. González's estate planning. No consideration was paid by the trust to Mr. González for the gift of these shares. Mr. González is not a trustee of the trust and does not have any pecuniary interest in the trust.
- (13) A corporation, controlled by Mr. Levy's family, which employs Mr. Levy as an executive officer, owns 432,246 shares of our common stock. In addition, Mr. Levy's mother owns 146,436 shares. Because of Mr. Levy's voting power over the shares owned by the corporation and those owned by his mother, these have been included as controlled by Mr. Levy for purposes of the above table. Includes 12,000 stock options that are presently exercisable.
- (14) Two corporations controlled by Mr. Torres own 531,650 shares and 18,000 shares, respectively. Because of Mr. Torres' voting power over the shares owned by these corporations, they have been included as controlled by Mr. Torres for purpose of the above table. Includes 12,000 stock options that are presently exercisable.
- (15) Includes 308,390 stock options that are presently exercisable.

ELECTION OF DIRECTORS

Nominees

Our amended and restated certificate of incorporation provides that the terms of office of the members of our Board of Directors be divided into three classes, Class A, Class B and Class C, the members of which serve for a staggered three-year term. The terms of the current Class A, Class B and Class C directors are set to expire at the annual meeting of stockholders in 2009, 2010 and 2008, respectively. Our amended and restated bylaws authorize our Board of Directors to fix the number of directors at not less than seven or more than eleven. Our Board of Directors presently consists of nine members, with three directors serving in each class. The number of directors has been fixed at nine in connection with the annual meeting. At the annual meeting, three directors comprising the Class C directors are to be elected. The Board of Directors has proposed the nominees listed below for election as Class C directors to serve until the 2011 annual meeting or until their successors are duly elected and qualified. All of the nominees listed below currently serve as Class C directors on our Board of Directors and all of the nominees were recommended for reelection by the Nominating and Governance Committee of our Board of Directors.

Unless otherwise specified in your proxy, proxies solicited hereby will be voted for the election of the nominees listed below. Each of the nominees has agreed to serve for a three-year term. If any of them should become unable to serve as a director, the Board of Directors may designate a substitute nominee. In that case, the proxies shall be voted for the substitute nominee or nominees to be designated by the Board of Directors. If no substitute nominees are available, the size of the Board of Directors will be reduced.

There are no arrangements or understandings between EuroBancshares and any person pursuant to which such person has been elected as a director. Each of these nominees is considered independent under the applicable NASDAQ rules.

Set forth below is certain information with respect to each nominee for election as a Class C director:

<u>Name</u>	<u>Age</u>	<u>Position Held with Eurobank</u>	<u>Position Held with EuroBancshares</u>
Rafael Arrillaga-Torréns, Jr.	59	Director, Chairman of the Board, President and Chief Executive Officer	Class C Director, Chairman of the Board, President and Chief Executive Officer
Pedro Feliciano Benítez	65	Director	Class C Director
Plácido González Córdova	86	Director	Class C Director

Rafael Arrillaga-Torréns, Jr. Mr. Arrillaga has served as Chairman of Eurobank's Board of Directors and President and Chief Executive Officer of Eurobank since 1993. He also has served in those same capacities with EuroBancshares since 2002. Before being named President and Chief Executive Officer of Eurobank, Mr. Arrillaga practiced law from 1974 until 1993, specializing in banking, tax and corporate law. Mr. Arrillaga was involved in the organization of Eurobank, and has served as a director of Eurobank since 1979.

Pedro Feliciano Benítez. Mr. Feliciano has been a member of the Board of Directors of Eurobank since 1999 and has served as a director of the Board of EuroBancshares since 2002. Mr. Feliciano has served as President of Las Piedras Construction Corp., a civil works construction company, since he founded the company in 1970.

Plácido González Córdova. Mr. González has been a member of the Board of Directors of Eurobank since 1997 and has served as a director of EuroBancshares since 2002. Prior to joining Eurobank's Board of Directors, Mr. González was a founder and director of Banco del Comercio de Puerto Rico, a full service commercial bank in Puerto Rico that was acquired by Eurobank in 1997.

Other Directors and Executive Officers

The following table sets forth information concerning our Class A and Class B directors and our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position Held with Eurobank</u>	<u>Position Held with EuroBancshares</u>
Ricardo Levy Echeandía	51	Director	Class A Director, Lead Independent Director
Luis F. Hernández Santana	48	Director	Class A Director
Jaime Sifre Rodríguez	60	Director	Class A Director
Juan Ramón Gómez-Cuétara Aguilar	32	Director	Class B Director
Antonio R. Pavía Bibiloni	60	Director	Class B Director
William Torres Torres	54	Director	Class B Director
Yadira R. Mercado Piñeiro	48	Executive Vice President, Chief Financial Officer and Corporate Secretary	Executive Vice President, Chief Financial Officer and Corporate Secretary
Luis J. Berríos López	61	Executive Vice President and Chief Lending Officer	None
Carlos Rom, Jr.	51	Executive Vice President	None
Felix M. León León	65	Executive Vice President of Operations	None
Jorge E. Sepúlveda Estrada	53	Senior Vice President and Treasurer	Senior Vice President and Treasurer
José M. Del Río Jiménez	49	Senior Vice President, EuroMortgage, a division of Eurobank	None
Fausto Peña Villegas	55	Senior Vice President Northern Region	None
Luis S. Suau Hernandez	57	Senior Vice President San Juan-Metropolitan Area	None
Roberto Carreras Sosa	53	Senior Vice President Eastern Region	None
Jaime A. Borges Bonilla	52	Senior Vice President Southern Region	None
Brenda I. Medina Alameda	42	Senior Vice President Western Region	None

Ricardo Levy Echeandía. Mr. Levy has been a member of our Board of Directors and a member of the Board of Directors of Eurobank since 2002. Currently, he is President of Francisco Levy Hijos, Inc., a general contractor and developer, and has served in that capacity since 2002. From 1999 until 2002, Mr. Levy served as Executive Vice President and Treasurer of Francisco Levy Hijos, Inc.

Luis F. Hernández Santana. Mr. Hernández has been a member of our Board of Directors and the Board of Directors of Eurobank since 2006. Also, he has served as the Chairman of the Audit Committee of EuroBancshares' Board of Directors. Mr. Hernández, a certified public accountant, is the managing partner of Torres, Hernández & Punter, CPA, CSP, position he has held since 2004. Between 1998 and 2004, Mr. Hernández served as partner of Torres CPA Group.

Jaime Sifre Rodríguez. In January 2008, Mr. Sifre was appointed by our Board to fill the vacancy left by the resignation of Diana López Feliciano in December 2007 and to serve on the Board of Eurobank. Mr. Sifre is an attorney at law and notary public, founding partner of Sánchez Betances, Sifre & Muñoz Noya, PSC, formerly Sánchez-Betances & Sifre, partnership, position he has held since 1974.

Juan Ramón Gómez-Cuétara Aguilar. In January 2007, Mr. Gómez-Cuétara was appointed by our Board to fill the vacancy left by the resignation of Jorge Calderón Drowett in August 2006 and to serve on the Board of Eurobank. Mr. Gómez-Cuétara previously served as a Class B Director of EuroBancshares from January 2004 to May 2006. Mr. Gómez-Cuétara is currently the Chief Financial Officer of Risi, S.A., a Spanish company involved in the manufacture and processing of snack foods, and he has served in that capacity since 2003. Prior to joining Risi, he was an auditor with PricewaterhouseCoopers in Madrid, Spain from 2001 to 2003. Mr. Gómez-Cuétara received his degree in business administration from the Universidad CEU San Pablo in Madrid, Spain in 2001.

Antonio R. Pavia Bibiloni. Mr. Pavia has been a member of the Board of Directors of Eurobank since 1998 and has served as a director of EuroBancshares since 2002. Mr. Pavia has held a number of senior executive and management positions in various financial institutions. He currently serves as President of Bartolo, Inc., a large gasoline station operations company, and has held this position since 1996.

William Torres Torres. Mr. Torres has been a member of the Board of Directors of Eurobank since 1999 and has served as a director of EuroBancshares since 2002. Mr. Torres, a certified public accountant, is the managing partner of Torres CPA Group, the consulting firm he founded in 1981.

Yadira R. Mercado Piñeiro. Ms. Mercado currently serves as our Executive Vice President, Chief Financial Officer and Corporate Secretary, positions she has held since 1993. She served as Senior Vice President of Finance and Operations at Eurobank from 1991 to 1993. Prior to joining Eurobank in 1991, Ms. Mercado held various executive officer positions with several banking institutions in Puerto Rico.

Luis J. Berrios López. Mr. Berrios rejoined Eurobank in August 2006 to serve as Executive Vice President and Chief Lending Officer, position he held from 1993 through 1998. He has over 35 years of experience in the commercial lending business in Puerto Rico. Before rejoining the bank, he served as the President of Commercial Credit Solutions, Inc. since 2000 and as the President and Chief Lending Officer of Banco Financiero de Puerto Rico between 1998 and 2000.

Carlos Rom, Jr. Mr. Rom joined Eurobank in January 2008 to serve as Executive Vice President, primarily responsible for managing and administering the branch network, marketing and strategic planning. Prior to joining Eurobank, since April 1, 2000, Mr. Rom was the managing partner of Edge Group, a consulting firm where he served as a strategic, management and marketing consultant to businesses, primarily in Puerto Rico, but also in the Caribbean and Central America. From 1986 to 1994 and from 1995 to 2000, Mr. Rom held various executive positions with Popular, Inc., and its banking subsidiary Banco Popular, including vice-president and marketing director of Banco Popular.

Felix M. Leon León. Mr. Leon currently serves as Eurobank's Executive Vice President of Operations, a position he has held since late 2004. Prior to joining Eurobank, Mr. Leon served as a financial consultant with Leon Consulting from 2003 to 2004. From 1997 through 2003, Mr. Leon served as the Regional Manager for Banco Popular de Puerto Rico where he supervised the Eastern Region of the bank. Mr. Leon received his BBA in 1964 and his JD in 1984 from the University of Puerto Rico.

Jorge E. Sepúlveda-Estrada. Mr. Sepúlveda-Estrada has served as Eurobank's Senior Vice President-Treasurer since 1993, overseeing Eurobank's management and investment strategies, and has served in the same

capacity with EuroBancshares since 2002. He has over thirty years of banking experience, including previous experience as a financial consultant, bank treasurer and investment officer.

José M. Del Río Jiménez. Mr. Del Río currently serves as Senior Vice President of EuroMortgage, a division of Eurobank, a position he has held since 2005. Prior to joining Eurobank, Mr. Del Río served as Vice President of Doral Financial Corporation from 1988 to 2005. Mr. Del Río has over twenty years of experience in the mortgage banking industry.

Fausto Peña Villegas. Mr. Peña currently serves as Eurobank's Senior Vice President for the Northern Region, a position he has held since 2001. He previously served as Assistant Vice President for Banco Santander de Puerto Rico from 1997 to 2001. Mr. Peña has over 25 years of experience in the banking industry, including officer positions with Banco Central Hispano Puerto Rico and Banco Santander de Puerto Rico.

Luis S. Suau Hernandez. Mr. Suau currently serves as Eurobank's Senior Vice President for the San Juan-Metropolitan Region, a position he has held since 2003. He previously served as Vice President and Manager of our San Juan branch office from 1997 to 2003. Mr. Suau has over 30 years of experience in the banking industry.

Roberto Carreras Sosa. Mr. Carreras is Eurobank's Senior Vice President for the Eastern Region, a position he has held since 2002. Mr. Carreras has over 25 years of banking experience including positions with the Banco Popular de Puerto Rico from 1997 to 2001 and Roig Commercial Bank from 1988 to 1997.

Jaime A. Borges Bonilla. Mr. Borges serves as Senior Vice President for the Southern Region, a position he has held since March 2006. Prior to joining Eurobank, Mr. Borges served as Vice President – Southwest District Manager and Business Development for Doral Bank, from 2003 to 2006. Mr. Borges has over 20 years of banking experience, including officer positions with Banco Santander de Puerto Rico and Doral Bank.

Brenda I. Medina Alameda. Ms. Medina currently serves as Eurobank's Senior Vice President for the Western Region, a position she has held since January 2006. She previously served as Vice President and Manager of Mayagüez Branch from 2003 to 2005. Mrs. Medina received her master degree in business administration from the Interamerican University, Puerto Rico in 1990. She has over twenty years of experience in the banking industry including positions with Banco Bilbao Vizcaya Argentaria and The Bank & Trust of Puerto Rico.

CORPORATE GOVERNANCE REFORMS

Because our common stock is quoted on the NASDAQ Global Select Market, we are subject to a host of corporate governance and related requirements under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the SEC's rules implementing Sarbanes-Oxley and the enhanced corporate governance listing standards of The Nasdaq Stock Market, Inc.

Sarbanes-Oxley imposes on public companies a variety of requirements, prohibitions and disclosure obligations, including, but not limited to:

- certifications by the chief executive officer and chief financial officer as to the accuracy and adequacy of periodic reports filed with the SEC;
- implementation and evaluation of the company's systems of disclosure controls and procedures and internal control over financial reporting;
- auditing related restrictions, including prohibition on auditors providing certain non-audit services to public companies, mandatory audit partner rotation and restrictions on hiring employees of former auditors;
- independence requirements and increased responsibilities for the audit committee, including responsibility for the engagement of the company's auditor, pre-approval of all services provided by the auditor, establishment of procedures for addressing accounting-related complaints and company disclosure of whether any member of the audit committee qualifies as an "audit committee financial expert";

- disclosure of whether the company has a code of ethics applicable to the chief executive officer and senior financial officers; and
- prohibition on the extension of personal loans to executive officers and directors (subject to certain exemptions).

In addition, The NASDAQ Global Select Market, Inc. implemented a number of additional listing requirements concerning director independence, board nominations, executive compensation and related corporate governance matters.

Corporate Governance Principles and Board Matters

We are committed to having sound corporate governance principles, both at the holding company level and at Eurobank. Such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace. We have adopted a set of Corporate Governance Guidelines that embodies these principles. EuroBancshares and Eurobank have also adopted a Code of Business Conduct and Ethics that applies to all officers (including the Chief Executive Officer, the Chief Financial Officer and the Corporate Comptroller), directors, employees and consultants, in accordance with Item 406 of Regulation S-K of the Securities Exchange Act of 1934 (the "Exchange Act") and the applicable NASDAQ rules. Our Corporate Governance Guidelines and the Code of Business Conduct and Ethics are posted on our Internet website under the Corporate Governance page (<http://investor.eurobankpr.com/>).

Directors' Compensation

On December 31, 2007, EuroBancshares' non-employee directors were granted options to purchase common stock pursuant to our 2005 Stock Option Plan. As a compensation for their participation as a member of our Board of Directors during 2007, a total of 6,000 stock options were granted to each of our non-employee directors. For more information on how the amount of stock options granted to directors was determined, refer to the "*Compensation Discussion and Analysis*" section of this Proxy Statement on Schedule 14A.

Meetings of our Board of Directors are held as often as required, but at least quarterly. Directors are not compensated for attending regular meetings of the Board of Directors of EuroBancshares. Meetings of the Board of Directors of Eurobank are held regularly each month. During 2007, directors of Eurobank received fees of \$2,000 per meeting for attendance at a meeting of the Board of Directors. The Board of Directors of each of EuroBancshares and Eurobank also have several committees. Except for the Audit Committee meetings, during 2007, the directors received \$500 for attending each committee meeting or special meeting of the Board of Directors. During 2007, members of our Audit Committee received \$600 for attending each Audit Committee meeting. In addition, the Chairman of the Audit Committee, the Compliance Committee and the Strategic Committee receives an annual retention fee of \$6,000, \$3,000 and \$2,000, respectively. Directors who are employees or officers of EuroBancshares or Eurobank do not receive fees for attending Board of Directors or committee meetings.

The following table provides compensation information for Eurobank's non-employee directors during 2007.

DIRECTOR SUMMARY COMPENSATION TABLE				
Name	Fees Earned or Paid		Options	
	in Cash ⁽¹⁾		Awards ⁽²⁾	
				Total
Antonio R. Pavia Biblioni	\$	57,400	\$	17,708
Diana López-Feliciano		51,500		17,708
Juan Ramón Gómez-Cuétara Aguilar		19,500		13,273
Luis F. Hernández Santana		63,500		13,273
Pedro Feliciano Benítez		30,500		17,708
Plácido González Córdova		32,500		17,708
Ricardo Levy Echeandía		51,000		17,708
William Torres Torres		55,000		17,708

(1) Represents the fees paid to non-employee directors for attending Eurobank's Board and committees and the annual retainer, excluding any amounts involved in transactions with related persons, as defined in Item 404(a) of Regulation S-K. For more information on transactions with related persons, refer to the section captioned "Certain Relationships and Related Transactions" of this Proxy Statement on Schedule 14A.

(2) Represents the FAS 123R accounting cost of all stock options granted to members of our Board.

Board Independence

Our Board of Directors has determined that each of our current directors, except Messrs. Arrillaga and Torres, is independent under the applicable NASDAQ rules. Mr. Arrillaga is an executive officer of both EuroBancshares and Eurobank. Mr. Torres is the owner of certain real estate of which portions are leased to Eurobank.

A corporation controlled by Mr. Torres received lease payments from us totaling approximately \$133,000 during each of the fiscal years 2007 and 2006, and \$129,000 in 2005. Another corporation controlled equally by Mr. Torres and Mr. Feliciano received lease payments from the Bank in the amount of \$56,000 during 2007, and \$88,000 and \$96,000 for the years 2006 and 2005, respectively. In addition, during 2006, a total of \$225,000 in consulting fees on lean processes re-engineering was paid to a corporation controlled by Mr. Torres.

Ricardo Levy Echeandía is the Lead Independent Director, responsible of coordinating the activities of our independent directors, serving as the principal liaison between our independent directors and the chairman, and to preside over the meetings of our independent directors. In November 2007, our Board of Directors adopted a formal policy addressing the responsibilities of the Lead Independent Director.

Independent Director Meetings

The independent members of our Board of Directors meet regularly, separate from the full Board of Directors and outside the presence of our management in executive session. During 2007, the independent members of our Board of Directors has held one meeting.

Directors' Qualifications

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstanding values and standards. They should have broad experience at the policy-making level in business, government or banking. They should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties for us. Each director must represent the interests of all stockholders. When considering potential director candidates, the Board also considers the candidate's character,

judgment, diversity, age, skills, including financial literacy and experience in the context of our needs and the needs of the Board of Directors.

Stockholders' Communications with Our Board of Directors

Our Board of Directors has established a process for stockholders to communicate with the Board of Directors or with individual directors. Stockholders who wish to communicate with our Board of Directors or with individual directors should direct written correspondence to our Corporate Secretary at our principal executive offices located at State Road PR-1, Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926. Any such communication must contain:

- a representation that the stockholder is a holder of record of our capital stock;
- the name and address, as they appear on our books, of the stockholder sending such communication; and
- the class and number of shares of our capital stock that are beneficially owned by such stockholder.

The Corporate Secretary will forward such communications to our Board of Directors or the specified individual director to whom the communication is directed unless such communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Corporate Secretary has the authority to discard the communication or to take appropriate legal action regarding such communication.

Board Structure and Committee Composition

As of the date of this proxy statement, our Board has nine directors and the following committees: Audit; Compensation, Governance and Nominating; Compliance; and Strategic Planning.

The membership during the last fiscal year and the function of each of the committees are described below. Our Board of Directors meets at least quarterly and the Board of Directors of Eurobank meets at least once each month. During the fiscal year 2007, our Board held 12 meetings and the Eurobank Board held 12 meetings. Each director attended at least 88% of the total of all Board and applicable committee meetings. Directors are encouraged to attend annual meetings of our stockholders although we have no formal policy. All directors attended the last annual meeting of our stockholders.

Committees of EuroBancshares

Audit Committee

Our Board of Directors has established an Audit Committee to assist the Board in fulfilling its responsibilities for general oversight of the integrity of our consolidated financial statements, compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of independent auditors and our internal audit function, and risk assessment and risk management. The duties of the Audit Committee include:

- appointing, evaluating and determining the compensation of our independent auditors;
- reviewing and approving the scope of the annual audit, the audit fee and the financial statements;
- reviewing disclosure controls and procedures, internal control over financial reporting, the internal audit function and corporate policies with respect to financial information;
- reviewing other risks that may have a significant impact on our financial statements;
- preparing the Audit Committee report for inclusion in the annual proxy statement;

- establishing procedures for the receipt, retention and treatment of complaints regarding accounting and auditing matters; and
- evaluating annually the Audit Committee charter and the committee's performance.

The Audit Committee works closely with management as well as our independent auditors. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from us for, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties.

Our Board of Directors has adopted a written charter for the Audit Committee meeting applicable standards of the SEC and NASDAQ. The members of the Audit Committee are CPA Luis F. Hernández Santana, Antonio R. Pavia Bibiloni and Jaime Sifre Rodríguez, attorney at law. Mr. Hernández serves as Chairman of the Audit Committee. Mr. Sifre was appointed to our Board and the Audit Committee on January 1, 2008 to fill the vacant left by Diana López Feliciano, Esq., who served as a member of the Audit Committee up to December 31, 2007, resigning on January 1, 2008 as a director of EuroBancshares and Eurobank.

The Audit Committee meets regularly and held 25 meetings during fiscal year 2007. The Board of Directors has determined that the Audit Committee satisfies the independence and other composition requirements of the SEC and NASDAQ. Our Board has determined that Mr. Hernández qualifies as an "audit committee financial expert" under Item 407(d)(5) of Regulation S-K under the Exchange Act, and has the requisite accounting or related financial expertise required by applicable NASDAQ rules.

A copy of our Audit Committee charter can be found under the Corporate Governance page on our Internet website (<http://investor.eurobankpr.com/>).

Compensation, Governance and Nominating Committee

On November 27, 2007, the Board of Directors consolidated the responsibilities of the Compensation Committee and the Nominating and Governance Committee into the new Compensation, Governance and Nominating Committee (the "CGN Committee"). Prior to that date, the Board of Directors discharged its responsibilities related to compensation through the Compensation Committee, and responsibilities related to nomination and corporate governance through its Nominating and Governance Committee.

During 2007, the Compensation Committee was composed of three directors: Ricardo Levy Echeandía, Plácido González Córdova and Juan Gómez-Cuétara Aguilar. During the same period, the Nominating and Governance Committee was composed of four directors: Ricardo Levy Echeandía, Plácido González Córdova, Juan Gómez-Cuétara Aguilar and Rafael Arrillaga-Torréns, Jr. Up to November 2007, Mr. Levy served as the Chairman of both committees.

The new CGN Committee is composed of three directors: Ricardo Levy Echeandía, Plácido González Córdova, and Juan Gómez-Cuétara Aguilar. The Board has determined that each member of the new committee is independent under applicable rules and regulations of the SEC, NASDAQ and the Internal Revenue Service. Mr. Levy serves as the Chairman of the new CGN Committee. During 2007, the Board of Directors discharged its responsibilities related to compensation through the Compensation Committee and, after November 27, 2007, through our new CGN Committee, as consolidated. During the same period, nomination and corporate governance responsibilities of the Board of Directors were discharged through the Nominating and Governance Committee and, after November 27, 2007, through our new CGN Committee, as consolidated. The Compensation Committee and the Nominating and Governance Committee held three meetings during fiscal year 2007, while the new CGN Committee, as consolidated, held one meeting during the same period.

Through the CGN Committee, the Board discharges its responsibilities relating to compensation of our Chief Executive Officer, other "named executive officers" (the "NEOs") as defined in Item 402(a)(3) of Regulation S-K, other executive officers and directors; produces an annual report on executive compensation for inclusion in our annual proxy statement; and provides general oversight of compensation structure, including our equity compensation plans and benefit programs. In addition, the CGN Committee has the responsibility of reviewing all

Board-recommended and stockholder-recommended nominees, determining each nominee's qualifications and making a recommendation to the full Board as to which persons should be our Board's nominees. Other specific duties and responsibilities of the CGN Committee include:

- reviewing and approving objectives relevant to executive officer compensation;
- evaluating performance and determining the compensation of our Chief Executive Officer and other executive officers in accordance with those objectives (salary revisions for all of our executive officers and employees are made every 12 months);
- approving employment agreements for executive officers;
- approving and amending our stock option plans (subject to stockholder approval, if required);
- approving any changes to nonequity-based benefit plans involving a material financial commitment by us or Eurobank;
- recommending to the Board the compensation for our directors and Eurobank's directors;
- evaluating human resources and compensation strategies;
- identifying and recommending to our Board individuals qualified to become members of our Board and to fill vacant Board positions;
- recommending to our Board the director nominees for the next annual meeting of stockholders;
- recommending to our Board director committee assignments;
- reviewing and evaluating succession planning for our Chief Executive Officer and other executive officers;
- monitoring the continuing education program for our directors;
- developing and recommending an annual self-evaluation process for our Board and its committees; and
- evaluating annually the CGN Committee charter and the CGN Committee's performance.

Our Board of Directors believes that it is necessary that the majority of our Board of Directors be comprised of independent directors and that it is desirable to have at least one audit committee financial expert serving on the Audit Committee. The CGN Committee considers these requirements when recommending Board nominees. Our CGN Committee utilizes a variety of methods for identifying and evaluating nominees for director. Our CGN Committee will regularly assess the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or other circumstances. When considering potential director candidates, the CGN Committee also considers the candidate's character, judgment, age, skills, including financial literacy, and experience in the context of our needs, the needs of Eurobank and the existing directors. While the CGN Committee has the authority to do so, we have not, as of the date of this prospectus, paid any third party to assist in identifying and evaluating Board nominees.

Our Board of Directors has established a procedure whereby our stockholders can nominate potential director candidates. The CGN Committee will consider director candidates recommended by our stockholders in a similar manner as those recommended by members of management or other directors, provided the stockholder submitting such nomination has complied with procedures set forth in our amended and restated bylaws.

In January 2008, Jaime Sifre Rodríguez was appointed by our Board to fill the vacancy left by Diana López Feliciano, who resigned on January 1, 2008 as a director of EuroBancshares and Eurobank. No candidate for

election to our Board has been recommended within the preceding year by a beneficial owner of 5% or more of our common stock.

Our Board is in the process of consolidating the written charters of the Compensation Committee and the Nominating and Governance Committee. A copy of our Compensation Committee charter can be found under the Corporate Governance page on our Internet website (<http://investor.eurobankpr.com/>). A copy of our Nominating and Governance Committee charter is attached as Appendix A.

Compliance Committee

The Compliance Committee reviews the compliance of EuroBancshares and Eurobank with laws and regulations applicable to bank holding companies and their subsidiary banks. The members of the Compliance Committee as of the date of this proxy statement were: Ricardo Levy Echeandía, Jaime Sifre Rodríguez, William Torres Torres and Rafael Arrillaga-Torréns, Jr. Mr. Levy serves as the Chairman of the Compliance Committee. Mr. Sifre was appointed to our Board and the Compliance Committee on January 1, 2008 to fill the vacant left by Diana López Feliciano, Esq., who served as a member of the Compliance Committee up to December 31, 2007, resigning on January 1, 2008 as a director of EuroBancshares and Eurobank. The Compliance Committee generally meets at least quarterly. The Compliance Committee held 11 meetings during 2007.

Strategic Planning Committee

Our Board has established a Strategic Planning Committee that is responsible for delineating our future strategy and business goals. In addition, it provides general guidance in the development of our strategic plan. The members of the Strategic Planning Committee are: William Torres Torres, Ricardo Levy Echeandía, Luis F. Hernández Santana, Rafael Arrillaga-Torréns, Jr. and Yadira R. Mercado. Mr. Torres serves as the Chairman of the Strategic Planning Committee. During 2007, the Strategic Planning Committee held five meetings.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The information contained in this Report of the Audit Committee shall not be deemed to be "soliciting material" or to be "filed" or incorporated by reference in future filings with the Securities and Exchange Commission, or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

On January 1, 2008, Jaime Sifre Rodríguez was appointed to our Board and the Audit Committee to fill the vacancy left by Diana López Feliciano, who, on the same date, resigned as a director of EuroBancshares and Eurobank.

In accordance with its written charter, which was approved in its current form by the Board of Directors on January 28, 2008, the Audit Committee assists the Board in, among other things, oversight of our financial reporting process, including the effectiveness of our internal accounting and financial controls and procedures, and controls over the accounting, auditing, and financial reporting practices. A copy of the Audit Committee charter can be found on our Internet website (<http://investor.eurobankpr.com/>) under the Corporate Governance page.

Our Board of Directors has determined that all three members of the Committee are independent based upon the standards adopted by the Board, which incorporate the independence requirements under applicable laws, rules and regulations.

Management is responsible for the financial reporting process, the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, the system of internal controls, and procedures designed to insure compliance with accounting standards and applicable laws

and regulations. Our independent auditors are responsible for auditing the financial statements. The Audit Committee's responsibility is to monitor and review these processes and procedures. Except for Luis F. Hernández Santana, CPA, the members of the Audit Committee are not professionally engaged in the practice of accounting or auditing and are not professionals in those fields. The Audit Committee relies, without independent verification, on the information provided to us and on the representations made by management that the financial statements have been prepared with integrity and objectivity and on the representations of management and the opinion of the independent auditors that such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

During fiscal 2007, the Audit Committee had 25 meetings. The Audit Committee's regular meetings were conducted in order to encourage communication among the members of the Audit Committee, management, the internal auditors, and our independent registered public accounting firm, Crowe Chizek and Company LLP. Among other things, the Audit Committee discussed with our internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee separately met with each of the internal and independent auditors, with and without management, to discuss the results of their examinations and their observations and recommendations regarding our internal controls. The Audit Committee also discussed with our independent auditors all matters required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 114, as amended, "The Auditor's Communication With Those Charged With Governance."

The Audit Committee reviewed and discussed our audited consolidated financial statements as of and for the year ended December 31, 2007 with management, the internal auditors, and our independent registered public accounting firm. Management's discussions with the Audit Committee included a review of critical accounting policies.

The Audit Committee obtained from the independent registered public accounting firm a formal written statement describing all relationships between us and our auditors that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The Audit Committee discussed with the independent registered public accounting firm any relationships that may have an impact on their objectivity and independence and satisfied itself as to the auditors' independence. The Audit Committee has reviewed and approved the amount of fees paid to Crowe Chizek and Company LLP, for audit and non-audit services, and concluded that the provision of services by independent registered public accounting firms is compatible with the maintenance of auditor's independence.

At four of its meetings during 2007, the Audit Committee met with members of senior management and the independent registered public accounting firm to review the certifications provided by the Chief Executive Officer and Chief Financial Officer under the Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC and the overall certification process. At these meetings, company officers reviewed each of the Sarbanes-Oxley certification requirements concerning internal control over financial reporting and any fraud, whether or not material, involving management or other employees with a significant role in internal control over financial reporting.

Based on the above-mentioned review and discussions with management, the internal auditors, and the independent registered public accounting firm, and subject to the limitations on our role and responsibilities described above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC.

Audit Committee of the Board of Directors
Luis F. Hernández Santana, CPA (Chairman)
Antonio R. Pavía Bibiloni
Jaime Sifre Rodríguez, Esq.
Dated: April 4, 2008

COMPENSATION DISCUSSION AND ANALYSIS

Overview and Scope of Authority

This is a report of the Company and its senior management team. It is not the report of the Compensation Committee of our Board of Directors. In this Compensation Discussion and Analysis section of the Proxy Statement, the terms “we,” “our,” and “us” refer to the Company and, when the context requires, to such senior management officials.

Compensation Philosophy and Objectives

The purpose of EuroBancshares’ compensation program has been, and is, to achieve our primary objective: to build shareholder value. We seek to attract and retain a highly qualified management team and promote a strong pay-for-performance culture by aligning compensation with superior short and long-term performance that builds shareholder value. In addition, to aligning compensation with performance, we also recognize that notwithstanding its size compared to its local peers, compensation must be generally competitive in order to attract, retain and motivate talented executives.

EuroBancshares uses a compensation framework with multiple payment components to balance various short-term and long-term objectives. This framework is designed to reward favorable total shareholder returns and to balance the executives’ need for current cash and security through vehicles such as salary and annual incentives, with the need to align executives’ long-term interests with those of shareholders through vehicles such as equity grants.

Our Board of Directors believes that compensation should:

- relate to the value created for shareholders by being directly tied to the financial performance and condition of the Company and each executive officer’s contribution thereto;
- reward individuals who help the Company achieve its short-term and long-term objectives and thereby contribute significantly to the success of Company;
- help to attract and retain the most qualified individuals available by being competitive in terms of compensation paid to persons having similar responsibilities and duties in other companies in the same and closely-related industries; and
- reflect the qualifications, skills, experience and responsibilities of each executive officer.

Base salary and perquisites are designed to provide some degree of security to each executive at the base threshold level of compensation, providing such executives with a reasonable standard of living and a base wage at a level compared to our peers and to encourage the executives’ day-to-day productivity. Annual cash incentives are designed to motivate executives to focus on our annual goals, while long-term incentives are designed to motivate the executives to focus on long-term strategic goals that will produce shareholder value and long-term rewards for the executives.

EuroBancshares’ compensation framework is also designed to ensure direct supervision and accountability with regard to performance evaluations at each level of the organization. For this reason, the Compensation Committee is directly responsible for determining the total compensation level and individual components of the named executive officers’ (the “NEOs” as defined in Item 402(a)(3) of Regulation S-K) compensation package, based upon various factors, including a review of the Company’s performance, and such officer’s individual performance. The Compensation Committee exercises independent discretion in respect of executive compensation matters, subject to approval of their recommendations by the Board of Directors with respect to certain matters.

The management group comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Lending Officer, and the Human Resources Department Director, in turn is directly responsible for conducting a

similar review of the other executives and employees of Company and then recommending an appropriate compensation package, which is discussed by the CEO with the Compensation Committee. This system continues in sequence throughout the Company's chain-of-command, so that the compensation of each employee is always based upon an evaluation of the employee's performance by the employee's direct supervisor, subject to approval by the next higher level of management, and an overall review by Company's Human Resources Department. In practice, this management group generally recommends the compensation of all other employees of the company.

The appropriate level of compensation for each officer or employee of the Company is expected to vary based upon EuroBancshares' overall performance, our financial performance and an individual's attainment of their personal objectives and contribution to the attainment of the Company's objectives. Specific items of the Company's performance taken into account when making compensation decisions include:

- growth in total assets;
- growth in loan originations and loan origination fees;
- growth in total loans receivable;
- growth in total deposits;
- growth in fees and service charges income;
- return on average equity;
- return on average assets;
- maintenance of asset quality;
- successful completion and integration of acquisitions; and
- performance of our stock price.

Although the current value of historical awards may also be taken into account, the primary objective is to reward the Company's management team for their current performance and provide incentive for future performance. Because there is no specific weighting applied to the factors considered, the Compensation Committee and each supervising manager are expected to use their own judgment and expertise in determining appropriate compensation packages that meet the Company's overall objectives.

Role of Compensation Committee

Composition. The Compensation Committee, which is composed of three independent, non-employee directors, is responsible for performing compensation committee functions, as provided under the rules of the SEC, including administration of the compensation of NEOs and directors. As stated above, the actions taken by the Compensation Committee are subject to review and appropriate approval of our Board of Directors. The current members of the Compensation Committee are: Richardo Levy Echeandía (Chairman), Plácido González Córdova and Juan Gómez-Cuétara Aguilar. Each of these members has been determined to be independent as defined by applicable NASDAQ rules.

Purpose. The primary purpose of the Compensation Committee is to conduct reviews of the Company's general executive compensation policies and strategies and oversee and evaluate our overall compensation structure to ensure the Company's compensation objectives are fulfilled.

Direct responsibilities of the Compensation Committee include, but are not limited to:

- evaluating and approving goals and objectives relevant to compensation of the CEO and other NEOs, other executive officers and employees, and evaluating the performance of the executives in light of those goals and objectives;
- determining and approving the compensation level for the CEO and other NEOs;
- approving or reviewing the compensation structure for other key executive officers;
- evaluating and approving all grants of equity-based compensation to the CEO, NEOs and other executive officers;
- recommending to the Board compensation policies for directors; and
- reviewing performance-based and equity-based incentive plans for the CEO, other NEOs and other executive officers and reviewing other benefit programs the CEO presents to the Compensation Committee on behalf of upper management.

Process. The Compensation Committee meets regularly in executive session and assesses a number of factors, without giving specific weight to any one factor, in designing and evaluating Company's compensation framework. Although the Compensation Committee utilizes its independent judgment in assessing the compensation programs for the CEO and other NEOs, it considers, from time to time, the advice of outside independent compensation consultants on its compensation policies, as discussed further below. The Compensation Committee meets at least once in a year with independent compensation consultants. Typically, compensation decisions for each calendar year are made at the end of the preceding calendar year. During 2007, the Compensation Committee met four times to review, discuss and approve compensation decisions for the Company.

Executive management contributes to the compensation process through his consultation with the Compensation Committee. The CEO works with the Compensation Committee in establishing individual and overall performance objectives and strategic target parameters for other NEOs. Also, the CEO and the Compensation Committee review the compensation programs of other NEOs to ensure that they are aligned with the performance objectives and strategic target parameters established. While the CEO participates from time to time at the Compensation Committee meetings, the CEO is excused from all discussions regarding his own compensation program and the compensation programs for other NEOs.

Independent Consultants. The Compensation Committee retains sole authority to engage, approve compensation, determine the nature and scope of such engagement, and terminate the services of its independent compensation consultants. Notwithstanding the independent discretion generally vested in the Compensation Committee, in benchmarking to set compensation parameters for the directors and NEOs, which generally also results in setting parameters for other officers and employees, the Compensation Committee retains, every year for NEO's and every other year for directors, an independent human resources and compensation firm. This independent firm is instructed to report to the Compensation Committee on market data on executive pay levels and incentive program designs, its role being to provide independent, third-party advice and expertise in executive compensation issues.

In 2006, the Compensation Committee retained Frederick W. Cook & Co., Inc., whose report focused on industry and peer comparisons, based on the sample groups described below. The Compensation Committee considered this report in establishing compensation for the CEO and other NEOs during for the year's 2006 and 2007, as well as to set director compensation for these periods. The two peer groups used by Frederick W. Cook & Co., Inc. were based on a set of peers based on U.S. publicly-traded financial companies and another based on Puerto Rico-based publicly-traded financial companies. The U.S. peer group consisted of the following regional commercial banks with total assets between one and five billion dollars with a marked capitalization of not more than one billion dollars: Bancorp Rhode Island, CoBiz, Community Banks, First Charter Corp, First State Bancorporation, Main Street Banks, Placer Sierra Bancshares, PrivateBancorp, Prosperity Bancshares, Signature

Bank, Sterling Bancorp, and Texas Capital Bancshares. The Puerto Rico-based publicly-traded financial companies included: Doral Financial Corp, First Bancorp, Santander Bancorp, Oriental Financial, Popular Inc, R&G Financial, and W Holding Co. As indicated in the report, we were positioned near the median for the US-based peer group in terms of total assets and between the 25th percentile and the median in terms of other major financial measures (except for market capitalization, where the company falls below the 25th percentile of the US-based group). With respect to its Puerto Rico peer group, based on 2005 data, the Company is below the 25th percentile with regards to all financial measures.

In November 2007, the Compensation Committee engaged the Compensation Group of Clark Consulting, a subsidiary of AEGON USA, to review executive compensation of the Company and to recommend potential improvements regarding its existing practices. In December 2007, Clark Consulting delivered a compensation review report to the Compensation Committee that the committee used and considered in making its compensation decisions for 2008. Similar to the report prepared by Frederick W. Cook & Co., Inc., the Clark Consulting report reviewed the compensation structure of EuroBancshares against that of a designated peer group consisting of certain banks with assets ranging from \$1.0 billion to \$7.0 billion in total assets and located in metropolitan areas. As an additional reference point, Clark Consulting compared the compensation structure of EuroBancshares against six other Puerto Rico banks. When compared to its customized peer group, the report concluded that our total compensation for our CEO and other NEOs was approximately 20% below the market for our peer group.

Role of Management

The role of our management is to provide reviews and recommendations for the Compensation Committee's consideration, and to manage the Company's executive compensation programs, policies and governance. Direct responsibilities of management include, but are not limited to:

- consulting with the Compensation Committee to establish performance criteria, targets and objectives;
- assist in the evaluation of performance of other officers;
- providing an ongoing review of the effectiveness of the compensation programs, including competitiveness, and alignment with EuroBancshares' objectives;
- recommending changes, if necessary to ensure achievement of all program objectives; and
- recommending pay levels, payout and/or awards for key executive officers other than the CEO and NEOs.

Components of Compensation

Our executive compensation program is built upon a framework that includes the following key components:

- Base Salary - Fixed compensation that takes into account the individual's role and responsibilities, experience, expertise and individual performance.
- Annual Cash Incentive Compensation - Variable compensation that is designed to reward the individual for specific performance achievements.
- Long-Term Incentive Compensation - Equity-based awards primarily in the form of stock options that are designed to align the interests of management with the interests of the stockholders by providing incentive awards that are tied to measures that are meaningful to stockholders.
- Other Benefits and Perquisites - Other employee benefit plans and perquisites typically offered to executives of similar corporations.

Base Salary. The Company pays its executives cash salaries intended to be competitive and take into account the individual's qualifications, experience, performance, responsibilities, and past and potential contribution to the company. When determining base salary levels of the CEO and other NEOs, the Compensation Committee considered, among others, the following specific factors:

- an assessment of the scope of CEO and other NEOs responsibilities and leadership;
- the CEO and other NEOs expertise and experience within the industry;
- the competitive market compensation paid to executive officers in similar positions at publicly-traded companies that are our peers;
- the Company's overall financial and business performance, considering external factors such as the interest rate environment and general economic conditions for Puerto Rico, as well as the fact that our overall long-term objective may inherently impair performance for any give fiscal year; and
- the CEO and other NEOs contributions to the Company.

Annual Cash Incentive Compensation. EuroBancshares maintains an Annual Cash Incentive Compensation Program. The annual component of this program is intended to encourage and reward the achievement of growth in Company's: (1) reported earnings; (2) total assets; (3) return on average assets; and (4) return on average equity. These criteria are deemed by the Compensation Committee to be critical in increasing shareholder value on both a short-term and long-term basis. The program also is designed to assist in attracting and retaining qualified employees and to further link the financial interests and objectives of employees with those of shareholders. In determining annual cash incentive compensation, the Compensation Committee evaluates the CEO and other NEOs contributions to their individual and overall performance objectives and strategic target parameters.

Long-Term Incentive Compensation. The Compensation Committee believes that long-term incentive plans, such as the Stock Option Plan, provide a competitive incentive that links the achievement of financial goals and individual performance, resulting in greater shareholder value. The purpose of these plans is to encourage the ownership of the Company's common stock, attract and retain qualified employees, develop and maintain strong management and employee loyalty, and give suitable recognition to an individual's material contributions to our success.

When determining the quantity and amount of awards to be granted, the Compensation Committee assesses the same factors considered in setting base salary, but with a greater emphasis on long-term growth measurements, such as return on average assets and return on average equity, CEO and other NEOs contributions to their individual and overall performance objectives and strategic target parameters, and the expansion of the Company's entire delivery system. Components of our delivery system that are considered include: growth in the number of total branches; increases in the number of personnel; and achievement of specific components of the Company's strategic plan. Historically, the Compensation Committee has granted stock options at calendar year end.

Retirement Plans and Perquisites. All full-time officers and employees are covered by a defined contribution plan (the "Plan") under section 1165(e) of the Puerto Rico Internal Revenue Code. All NEOs are eligible to participate in the Plan. Under the Plan, employees may contribute up to 10% of their compensation each year after deduction social security, up to \$8,000. The Company matches each employee's contribution up to 3% of their base compensation that they contribute to the plan, up to a maximum of 3,000 per year. Participants become vested in the Company's contributions plus actual earnings on such contributions after three yeas of service. There are no other retirement plan for NEOs other than the above.

Certain key employees of EuroBancshares receive benefits that are designed to reward their contributions to the Company and to encourage their productivity and continued service. Certain of the perquisites provided to the CEO and other NEOs, such as club memberships, are deemed to provide business value to the Company because they provide a place for executives to continue interacting with customers and develop business during non-business

hours. Perquisites provided to certain NEOs during 2007 included auto allowance or a company-owned vehicle, and payment of club dues.

2007 Compensation Analysis

In 2007, short-term and long-term pay for the CEO and some NEOs were on the low end of the market competitive range, while the total compensation for other NEOs were below the range when compared to our custom peer group and other local financial institutions. Also, during 2007, there was a fierce competition for a local market share and, although the Company's assets size was significantly smaller when compared to other local peers, our ability to successfully compete with our larger peers resulted in a 10% increase in total assets when compared to 2006. In determining the total compensation for 2007, the Compensation Committee considered the Company's total compensation levels and the current economic environment, realigning its compensation philosophy to follow a more retention-based approach for the CEO and NEOs in order to appropriately respond to this time of heightened speculation of consolidation and increased need for executive officers.

Base Salaries. During 2007, the compensation of the CEO and other NEOs was based on the general principles of the executive compensation program. In determining the salary and other forms of compensation for the CEO and other NEOs, the Compensation Committee took into consideration their experience and standing in the industry in general and with the Company in particular. For the CEO, the Compensation Committee also considered his increased responsibilities as a result of Company's diversification and growth in recent years. The Compensation Committee believes that the CEO and other NEOs compensation appropriately reflects their contributions to their individual and overall performance objectives and strategic target parameters of the Company in a difficult interest rate and economic environment.

Cash Incentive Compensation. In determining annual cash incentive compensation for 2007, the Compensation Committee gave significant weight to the individual contributions by the CEO and other NEOs to the strategic target parameters in light of the long-term goals of the Company, recognizing that under current market conditions, such as the persistent inverted interest rate curve, the prime rate cuts, and Puerto Rico's economy crisis, our long-term objectives may have inherently impaired the EuroBancshares' performance during 2007 using the traditional methods to measure performance.

Stock Option Awards. In determining stock option awards for 2007, the Compensation Committee gave significant weight to the achievement of individual performance objectives for the CEO and other NEOs, recognizing that under current market conditions, such as the persistent inverted interest rate curve, the prime rate cuts, and Puerto Rico's economy crisis, our long-term objectives may have inherently impaired EuroBancshares' performance during 2007 using the traditional methods to measure performance.

Change in Control Agreements. Additionally, given the heightened speculation of consolidations in the Puerto Rico banking industry and the apparent increased need among the Company's local peers for talented officers due to several resignations of the top executives of such peers, it was determined that it was in the best interests of the Company to enter, on March 14, 2007, into a Change in Control Agreement with Mr. Arrillaga. This agreement, which provides for a severance payment resulting from a termination of employment either prior to or following a change in control, is intended to ensure the best level of continuity in operations should the Company consider consolidation and to allow for an even greater impartial consideration of any consolidation proposal by such executive by providing a level of security to the officer in the event of such consolidation. On the same date, we also entered into a similar Change in Control Agreement with Yadir R. Mercado Piñeiro, our Executive Vice President and Chief Financial Officer, which superseded and replaced her Executive Severance Compensation Agreement (the "Severance Payment Agreement"), dated as of April 12, 1999.

Pursuant to the terms of the Change in Control Agreements, our Board of Directors is permitted to terminate the agreements at any time prior to a change in control by providing at least 90 days prior written notice to the executive officer. If the termination is due to a constructive termination or is a result of an involuntary termination, other than a termination for cause, then the officer will be entitled to receive a severance payment on the date of termination, plus accrued vacation and other benefits described therein. The severance payment that would become payable to Mr. Arrillaga upon such a termination would be equal to \$1.5 million and the severance payment that would become payable to Ms. Mercado upon such a termination would be equal to \$750,000.

The Agreements further provides that Mr. Arrillaga and Ms. Mercado, as applicable, will be entitled to receive a cash severance payment paid by EuroBancshares and Eurobank upon his or her termination of employment with Eurobank on or within two years after a change in control due to either (1) a constructive termination or (2) his involuntary termination, other than a termination for cause. In the event that Mr. Arrillaga or Ms. Mercado, as applicable, continues his or her employment with Eurobank for the period commencing on the date of a change in control and ending on the six-month anniversary of the change in control, then Mr. Arrillaga and Ms. Mercado, as applicable, will have the right to receive a cash severance payment paid by EuroBancshares and Eurobank upon the voluntary termination of his or her employment with Eurobank within 30 days following the expiration of such period. In either case, the severance payment that would become payable to Mr. Arrillaga upon such a termination would be equal to \$1.5 million and the severance payment that would become payable to Ms. Mercado upon such a termination would be equal to \$750,000.

Finally, the Agreements provide that for a period of two (2) years following the date of a change in control, Mr. Arrillaga and Ms. Mercado, and their dependents, will be entitled to certain continued health, dental, disability, accident and life insurance benefits.

We considered the following factors when selecting the events that trigger payment in the Change in Control Agreements:

- Our recognition that, at some point in the future, the possibility of a Change in Control, as defined in the Agreements, may exist, and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of EuroBancshares and its stockholders; and
- The executive's desire of assurance that in the event of any Change in Control of EuroBancshares or Eurobank, he/she will continue to have the responsibility and stature he/she has earned within Eurobank, or in the alternative, if terminated that he/she be adequately compensated as provided in the Change in Control Agreement.

Executive Compensation Deductibility

Our Compensation Committee has considered the impact of the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended, that provides that compensation paid to a corporation's executive officers may not be deductible for federal income tax purposes unless, in general, such compensation is performance-based, is established by an independent committee of directors, is objective and the plan or agreement providing for such performance-based compensation has been approved in advance by the stockholders. Because a Puerto Rico corporation is not required to pay federal income taxes except for any income related to the conduct of a trade or business in the United States, Section 162(m) should not limit the tax deductions available to us for executive compensation in the near future.

Compensation Committee Interlocks and Insider Participation

Except for Rafael Arrillaga-Torréns, Jr., President and Chief Executive Officer, none of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee. None of the current members of our Compensation Committee has ever been an employee of ours or any of our subsidiaries. Eurobank has made loans to some of our directors, including members of the Compensation Committee. The loans to such persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee of the Board has reviewed and discussed the Compensation Discussion and Analysis (the "CD&A") with management and, based on the review and discussions, the Committee recommended to our Board of Directors that the CD&A be included in this Proxy Statement on Schedule 14A.

Compensation Committee of the Board of Directors

Ricardo Levy Echeandía (Chairman)

Plácido González Córdova

Juan Gómez-Cuétara Aguilar

Dated: February 21, 2008

The information contained in this Report of the Compensation Committee shall not be deemed to be "soliciting material" or to be "filed" or incorporated by reference in future filings with the Securities and Exchange Commission, or to be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table outlines cash compensation awarded, together with the accounting cost to the Company of previously granted equity awards and other non-cash compensation to NEOs for year ended December 31, 2007.

SUMMARY COMPENSATION TABLE						
Name	Year	Salary	Bonus	Option Awards ⁽¹⁾	All Other Compensation ⁽²⁾	Total
Rafael Arrillaga-Torréns, Jr. Chairman of the Board, President and Chief Executive Officer	2007	\$ 400,000	\$ 190,450	\$ 44,575	\$ 56,173	\$ 691,198
	2006	400,000	256,300	29,320	62,850	748,470
Yadira R. Mercado Piñeiro Executive Vice President, Chief Financial Officer and Corporate Secretary	2007	275,000	125,450	39,280	19,850	459,580
	2006	230,200	150,300	21,095	22,500	424,095
Luis J. Berrios López ⁽³⁾ Executive Vice President and Chief Lending Officer	2007	260,000	70,000	6,346	9,975	346,321
	2006	248,600	1,000	-	37,693	287,293
José Del Río Jiménez Senior Vice President, EuroMortgage, a division of Eurobank	2007	248,600	300	-	15,200	264,100
	2006	248,600	300	-	15,200	264,100
Jaime Noble Fernández ⁽⁴⁾ Senior Vice President, EuroLease, a division of Eurobank	2007	219,200	450	3,173	17,901	240,724
	2006	221,400	40,300	-	14,851	276,551

- (1) The values shown in the table reflect the accounting compensation cost incurred during year ended December 31, 2007 in accordance with FAS 123R for option awards earned in prior years.
- (2) The values shown in the table include the value of perquisites or other personal benefits, such as auto allowance or a company-owned vehicle and payment of club dues. The total value of perquisites awarded to Mr. Arrillaga includes \$29,665 related to personal security.
- (3) Effective September 1, 2006, Mr. Berrios was appointed by our Board of Directors in the capacity of Executive Vice President and Chief Lending Officer of Eurobank. Mr. Berrios became a NEO in 2007.
- (4) Mr. Noble retired on March 31, 2008.

Grants of Plan-Based Awards

The following table sets forth certain information with respect to the stock options awarded to our NEOs during 2007. None of these stock options are tied to express performance criteria.

GRANTS OF PLAN-BASED AWARDS				
Name	Grant Date ⁽¹⁾	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Option Awards ⁽²⁾
Rafael Amillaga-Torréns, Jr.	12/31/07	25,000	\$ 4.00	\$ 1.68
	02/26/07	30,000	8.60	3.81
Yadira R. Mercado Piñeiro	12/31/07	22,000	4.00	1.68
	02/26/07	25,000	8.60	3.81
Luis J. Berrios López	12/31/07	10,000	4.00	1.68
	02/26/07	12,500	8.60	3.81
José Del Río Jiménez	-	-	-	-
Jaime Noble Fernández ⁽³⁾	02/26/07	5,000	8.60	3.81

(1) The stock options vest in five equal annual installments beginning on the first anniversary.

(2) Reflects the grant date fair value of stock options computed in accordance with FAS 123R.

(3) Mr. Noble retired on March 31, 2008.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information with respect to the value of all unexercised stock options previously awarded to the NEOs.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END						
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		
Rafael Arrillaga-Torréns, Jr.	50,000	-	\$ 5.00	03/23/08	(1)	
	50,000	-	8.13	02/22/09	(1)	
	25,400	-	21.00	02/27/10	(1)	
	5,080	20,320	14.17	02/28/16	(2)	
	-	25,000	8.60	02/26/17	(2)	
	-	30,000	4.00	12/31/17	(2)	
Yadira R. Mercado Piñeiro	36,000	-	5.00	03/23/08	(1)	
	45,000	-	8.13	02/22/09	(1)	
	22,400	-	21.00	02/27/10	(1)	
	4,480	17,920	14.17	02/28/16	(2)	
	-	22,000	8.60	02/26/17	(2)	
	-	25,000	4.00	12/31/17	(2)	
Luis J. Berrios López	-	10,000	8.60	02/26/17	(2)	
	-	12,500	4.00	12/31/17	(2)	
José Del Río Jiménez	-	-	-	-		
Jaime Noble Fernández ⁽³⁾	25,000	-	5.00	03/23/08	(1)	
	40,000	-	8.13	02/22/09	(1)	
	20,400	-	21.00	02/27/10	(1)	
	-	5,000	8.60	02/26/17	(2)	

(1) Stock options were granted under the 2002 EuroBancshares Stock Option Plan.

(2) Stock options were granted under the 2005 EuroBancshares Stock Option Plan.

(3) Mr. Noble retired on March 31, 2008.

Option Exercises

The following table includes certain information with respect to the stock options exercised by the NEOs during 2007. The value realized upon exercise of the options was computed by determining the difference between the market price of the options at exercise and the exercise price of the options.

OPTION EXERCISES		
Name	Number of Shares	
	Acquired on Exercise	Value Realized on
	(#)	Exercise (\$)
Rafael Arrillaga-Torréns, Jr.	35,250	\$ 144,525
Yadira R. Mercado Piñeiro	23,500	96,350
Luis J. Berríos López	-	-
José Del Río Jiménez	-	-
Jaime Noble Fernández ⁽¹⁾	18,800	77,080

(1) Mr. Noble retired on March 31, 2008.

Payments Made Upon Termination of Employment

Regardless the manner NEOs terminate their employment, they are entitled to receive the amounts contributed to the defined contribution plan under section 1165(e) of the Puerto Rico Internal Revenue Code, including the vested portion of the employer match.

Additional amounts that NEOs are entitle to receive upon exercise of stock options:

- In case of change in control, as defined in the stock option plans, all remaining unvested stock options shall become vested and shall become subject to an adjustment, as defined in the stock option plans, upon changes in capitalization, merger and change in control.
- In case of retirement under a retirement plan sponsored by EuroBancshares or Eurobank, stock options granted under the 2002 Stock Option Plan that are exercisable as of the date of retirement shall be exercisable for the lesser of: (a) the remainder of the term of the option; or (b) the date that is twelve months after the date of retirement. Stock options granted under the 2005 Stock Option Plan that are exercisable as of the date of retirement shall be exercisable for the lesser of: (a) the remainder of the term of the option; or (b) the date that is three months after the date of retirement.
- In case of resignation, stock options granted under the 2002 Stock Option Plan that are exercisable as of the date of resignation shall be exercisable for the lesser of: (a) the remainder of the term of the option; or (b) thirty days after the date of resignation. Stock options granted under the 2005 Stock Option Plan that are exercisable as of the date of resignation shall be exercisable for the lesser of: (a) the remainder of the term of the option; or (b) the date that is ninety days after the date of resignation.
- In case of death, disability or resignation because of health problems, all unvested stock options granted under the 2002 Stock Option Plan shall become exercisable as of the date of termination and, in conjunction with vested stock options, shall be exercisable for the remainder term of the option. Under the 2005 Stock Option Plan, if the optionee ceases to be an eligible person, as defined in the plan, the optionee's estate, heirs or legatees, as the case may be, shall have the right of a beneficiary. In case of disability or resignation because of health problems, stock options granted under the 2005 Stock Option Plan that are exercisable as of the date of termination shall be exercisable for the lesser of: (a) the remainder of the term of the option; or (b) the date that is twelve months after the date of termination.

- In case of termination with cause, all stock options, vested or unvested, shall terminate immediately and any unexpired stock option shall be forfeited.

Termination upon a Change in Control

On March 14, 2007, EuroBancshares entered into a Change in Control Agreements (the "Agreements") with Rafael Arrillaga-Torréns, Jr., Chairman of the Board, President and Chief Executive Officer, and Yadira R. Mercado Piñeiro, our Executive Vice President and Chief Financial Officer. The Agreement signed with Ms. Mercado superseded and replaced her Executive Severance Compensation Agreement (the "Severance Payment Agreement"), dated as of April 12, 1999. The Agreements are intended to ensure the best level of continuity in operations should the Company consider consolidation and to allow for an even greater impartial consideration of any consolidation proposal by such executive by providing a level of security to the officer in the event of such consolidation. Except for the Agreements described above, as of December 31, 2007, we did not have any other employment agreements with any of our NEOs.

The value shown in the tables for termination upon change in control represents the amounts of cash or benefits Mr. Arrillaga and Ms. Mercado would have received on December 31, 2007, as stipulated in the Agreements.

Stock Options

The values shown in the tables for stock options was computed by determining the difference between the market price of the options at December 31, 2007 and the exercise price of the options.

The following tables detail the compensation each NEO would receive upon termination of employment, and are presented assuming the termination of employment occurred on December 31, 2007.

Termination upon a Change in Control

CHANGE IN CONTROL			
Name	Change in Control		Stock Options (\$)
Rafael Arrillaga-Torréns, Jr.	\$	1,532,565	\$ -
Yadira R. Mercado Piñeiro		782,565	-
Luis Berrios López		-	-
José Del Río Jiménez		-	-
Jaime Noble Fernández ⁽¹⁾		-	-

(1) Mr. Noble retired on March 31, 2008.

Termination for Retirement, Death, Disability or Without Cause

RETIREMENT, DEATH, DISABILITY OR WITHOUT CAUSE		
Name	Change in Control	Stock Options (\$)
Rafael Arrillaga-Torréns, Jr.	\$ -	\$ -
Yadira R. Mercado Piñeiro	-	-
Luis J. Berrios López	-	-
José Del Río Jiménez	-	-
Jaime Noble Fernández ⁽¹⁾	-	-

(1) Mr. Noble retired on March 31, 2008.

Termination With Cause

TERMINATION WITH CAUSE		
Name	Change in Control	Stock Options (\$)
Rafael Arrillaga-Torréns, Jr.	\$ -	\$ -
Yadira R. Mercado Piñeiro	-	-
Luis J. Berrios López	-	-
José Del Río Jiménez	-	-
Jaime Noble Fernández ⁽¹⁾	-	-

(1) Mr. Noble retired on March 31, 2008.

Stock Option Plan

In 1997, Eurobank's Board of Directors adopted a long-term incentive compensation program in the form of a stock option plan (the "1997 Stock Option Plan"). Both executive officers and directors were eligible to participate in the 1997 Stock Option Plan. The 1997 Stock Option Plan permitted a maximum number of 1,100,000 shares to be issued upon the exercise of stock options granted under the plan.

In 2002, our Board of Directors adopted a long-term incentive compensation plan (the "2002 Stock Option Plan") that became effective when we became a holding company for Eurobank. At that time, all of the Eurobank options granted under the 1997 Stock Option Plan were assumed by EuroBancshares under the 2002 Stock Option Plan and became options to purchase shares of EuroBancshares common stock. The aggregate number of shares of common stock that were permitted to be issued pursuant to the exercise of all options granted under the 2002 Stock Option Plan could equal but not exceed 1,982,864 shares, which amount was comprised of (i) options to acquire 1,500,000 shares of common stock authorized under this plan, and (ii) options that previously represented the right to acquire 482,864 shares of common stock of Eurobank and have been assumed by EuroBancshares and converted into options to acquire a like number shares of common stock of EuroBancshares.

At our 2005 annual meeting, our stockholders approved the 2005 Stock Option Plan pursuant to which we are authorized to issue options to purchase up to 700,000 shares of our common stock, of which 440,000 shares are specifically set aside for the purpose of granting incentive stock options under the plan. As a result of the adoption of the 2005 Stock Option Plan, no further options to acquire shares of our common stock are being issued under the 2002 Stock Option Plan.

As of December 31, 2007, all outstanding options granted under our 2002 Stock Option Plan were 100% vested. As of the same date, a total of 87,030 outstanding options granted under our 2005 Stock Option Plan were 100% vested, while 192,940 outstanding options remained unvested. In addition, during 2007, 254,862 shares of

common stock have been issued pursuant to the exercise of options granted under the 2002 Stock Option Plan. As of December 31, 2007, 400,130 shares of our common stock remained available for option grants under the 2005 Stock Option Plan.

The 2005 Stock Option Plan is intended to provide our directors, executive officers and employees the opportunity to acquire a proprietary interest in the success of EuroBancshares by granting stock options to such directors, executive officers and employees. Specifically, the plan is intended to advance the interests of EuroBancshares by (1) enabling us to attract and retain the best available individuals for positions of substantial responsibility; (2) providing additional incentive to such persons by affording them an opportunity for equity participation in our business; and (3) rewarding directors, executive officers and employees for their contributions to our business.

The 2005 Stock Option Plan is administered by our Compensation Committee. The Compensation Committee has authority with respect to the stock option plan to:

- adopt, amend and rescind administrative and interpretive rules relating to the plan;
- accelerate the time of exercisability of any stock option that has been granted;
- construe the terms of the plan and any related agreement (including those terms governing eligibility); and
- make all other determinations and perform all other acts necessary or advisable for administering the plan, including the delegation of such ministerial acts and responsibilities as the Compensation Committee deems appropriate.

Both "Incentive Stock Options" and "Nonstatutory Options" may be granted under the 2005 Stock Option Plan from time to time. Incentive Stock Options are stock options intended to satisfy the requirements of Section 1046 of the Puerto Rico Internal Revenue Code. Nonstatutory Options are stock options that do not satisfy the requirements of Section 1046 of the Puerto Rico Internal Revenue Code.

Under our 2002 Stock Option Plan and the 2005 Stock Option Plan, the aggregate fair market value (determined as of the date an option is granted) of the shares with respect to which Incentive Stock Options are exercisable for the first time by any optionee during any calendar year may not exceed \$100,000. Shares acquired upon the exercise of Nonstatutory Options may not be sold for a period of one year after such options are exercised.

The option price to be paid upon exercise of an Incentive Stock Option will not be less than the greater of: (1) the par value per share of our common stock; or (2) 100% of the fair market value per share of our common stock on the date of the grant of the Incentive Stock Option. The option price to be paid upon exercise of a Nonstatutory Option will be determined by the Compensation Committee at the time of grant.

Each option (including Incentive Stock Options and Nonstatutory Options) granted under the 2005 Stock Option Plan has an expiration term of ten years after the date the option is granted, unless a shorter period is determined by the Compensation Committee. Each option may be exercised upon such terms and conditions as the Compensation Committee determines. In making any determination as to whom options shall be granted, and as to the number of shares to be covered by such options, the Compensation Committee considers the duties of the respective employees, their present and potential contributions to our success, profitability and growth, and such other factors as the Compensation Committee deems relevant in connection with accomplishing the purposes of our 2005 Stock Option Plan.

Statement of Financial Accounting Standards (SFAS) No. 123, *Share-Based Payment* (Revised 2004), establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods or services, or (ii) incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of the equity instruments. SFAS 123R eliminated the ability to account for stock-based compensation using APB 25 and required that such transactions

be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

Change in Control Agreements

On March 14, 2007, EuroBancshares, Inc. ("EuroBancshares") entered into Change In Control Agreements (the "Agreement") with each of Rafael Arrillaga-Torréns, Jr., Chairman, President and Chief Executive Officer of EuroBancshares, and Yadira R. Mercado Piñeiro, Executive Vice President and Chief Financial Officer of EuroBancshares, which provides for a severance payment resulting from a termination of employment either prior to or following a Change in Control (as defined in the Agreement) of EuroBancshares or its subsidiary, Eurobank. The foregoing description of the Agreements is qualified in its entirety by reference to the terms of the Agreements, which were filed as Exhibit 10.3 and Exhibit 10.4 to the Current Report on Form 8-K (File No. 000-50872) previously filed by EuroBancshares, Inc. on March 16, 2007.

Pursuant to the terms of the Agreements, the Board of Directors of EuroBancshares is permitted to terminate the Agreements at any time prior to a Change in Control by providing at least ninety (90) days prior written notice to the executive officer. If the termination is due to a Constructive Termination (as defined in the Agreement) or is a result of an involuntary termination, other than a Termination for Cause (as defined in the Agreement), then Mr. Arrillaga or Ms. Mercado, as applicable, will be entitled to receive a severance payment on the date of termination, plus accrued vacation and other benefits described therein. The severance payment that would become payable to Mr. Arrillaga upon such a termination would be equal to \$1.5 million and the severance payment that would become payable to Ms. Mercado upon such a termination would be equal to \$750,000.

The Agreements further provides that Mr. Arrillaga and Ms. Mercado, as applicable, will be entitled to receive a cash severance payment paid by EuroBancshares and Eurobank upon his or her termination of employment with Eurobank on or within two (2) years after a Change in Control due to either (1) a Constructive Termination or (2) his involuntary termination, other than a Termination for Cause. In the event that Mr. Arrillaga or Ms. Mercado, as applicable, continues his or her employment with Eurobank for the period commencing on the date of a Change in Control and ending on the six-month anniversary of the Change in Control (the "Stay Put Period"), then Mr. Arrillaga and Ms. Mercado, as applicable, will have the right to receive a cash severance payment paid by EuroBancshares and Eurobank upon the voluntary termination of his or her employment with Eurobank within thirty (30) days following the expiration of the Stay Put Period. In either case, the severance payment that would become payable to Mr. Arrillaga upon such a termination would be equal to \$1.5 million and the severance payment that would become payable to Ms. Mercado upon such a termination would be equal to \$750,000.

Finally, the Agreements provide that for a period of two (2) years following the date of a Change in Control, Mr. Arrillaga and Ms. Mercado shall be entitled to participate, and EuroBancshares or Eurobank shall continue to make contributions on their behalf) in all health, dental, disability, accident and life insurance plans or arrangements in which they or their dependents were participating immediately prior to the date of termination as if they continued to be employees of EuroBancshares or Eurobank. In the event that Mr. Arrillaga or Ms. Mercado accepts employment with another employer during this two (2) year period, such additional benefits shall only be provided to the extent not covered by his or her new employer.

The agreement for Ms. Mercado supersedes and replaces her Executive Severance Compensation Agreement, dated as of April 12, 1999. For more information on the Change in Control Agreements, refer to the "Compensation Discussion and Analysis" section of this Proxy Statement on Schedule 14A.

Employment Agreements

Other than the Change in Control Agreements described above, we do not have any other employment agreements with any of our NEOs. All of our NEOs serve at the pleasure of our Board of Directors. We do not maintain any "key-man" life insurance policies on any of our executive officers. If any of these individuals leaves his or her respective position, this could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

Health and Insurance Benefits

Our full-time officers and employees are provided hospitalization and major medical insurance. We pay a substantial part of the premiums for these coverages. All insurance coverage under these plans is provided under group plans on generally the same basis to all full-time employees. In addition, we maintain term life insurance, which provides benefits to all employees who have completed three or more months of full-time employment with us. The terms of our policy provide benefits equal to three times the employee's annual base earnings (exclusive of overtime pay or bonuses) up to a maximum of \$300,000.

Eurobank Master Trust Retirement Plan Program for Employees

Effective January 1, 2000, Eurobank adopted the Eurobank Master Trust Retirement Plan Program, a defined contribution plan under Section 1165(c) of the Puerto Rico Internal Revenue Code, covering all full-time employees of EuroBancshares who have completed three months of service and are 18 years of age or older. We give each prospective eligible employee written notice of his or her eligibility to participate in the plan in sufficient time to enable each of them to participate in the plan. Under the provisions of the plan, employees may contribute up to 10% of their compensation each year after deducting social security, up to a specific maximum established by law. We match each employee's contribution up to 3% of their base compensation that they contribute to the plan, up to a maximum of \$3,000. Participants become vested in our contributions plus actual earnings on such contributions after three years of service.

Restricted Stock Grants

On April 26, 2004, our Board voted and agreed to issue 3,700 shares of our common stock (valued at \$8.13 per share) to certain of our officers and employees in consideration for prior service to us. These stock grants were effected pursuant to the terms of certain Restricted Stock Purchase Agreements between us and the officers and employees. Under the terms of these Restricted Stock Purchase Agreements, the stock remains unvested until the 5th anniversary of the date of the grant. In the event the restricted stock grantee leaves prior to the 5th anniversary, the restricted stock grantee forfeits all right, title and interest in the restricted stock. As of December 31, 2007, after forfeitures, a total of 2,300 stocks remain unvested. The Restricted Stock Purchase Agreement also provides for the payment of a one-time cash bonus pursuant to which we will withhold applicable taxes due as a result of the restricted stock grant.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Under Section 402 of the Sarbanes-Oxley Act of 2002, it is now unlawful for any issuer to extend, renew or arrange for the extension of credit in the form of a personal loan to or for any director or executive officer of that issuer. This prohibition does not apply to loans that were made on or prior to July 30, 2002, or certain types of loans described in Section 402 that are:

- made available by the issuer in the ordinary course of the issuer's consumer credit business;
- of a type generally made available by such issuer to the public; and
- made by the issuer on market terms, or terms that are no more favorable than those offered by the issuer to the general public.

Section 402 also does not apply to loans by an insured depository institution, if the loan is subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act or the Federal Reserve's Regulation O.

In August 2007, our Board approved the *Policy and Procedures With Respect to Related Party Transactions* (the "Policy"). The Policy was created to ensure that: (i) related party transactions do not represent a conflict of interest that could give rise to situations where non-arm's length parties are treated more favorably than such parties would be treated in the ordinary course; and (ii) EuroBancshares comply with applicable corporate governance rules and regulations. The Policy applies to any transaction, in which EuroBancshares was or is to be a

participant, the amount involved exceeds \$120,000, and in which the related person had or will have a direct or indirect material interest. A related person is any director or executive officer of EuroBancshares, any shareholder with a beneficial ownership over 5%, and any immediate family member of such related person. The Audit Committee is generally responsible for supervising the implementation of the Policy, including the review, approval or ratification of any related party transaction.

In determining whether to approve, ratify, disapprove or reject a related party transaction, the Audit Committee shall consider, among other factors, if the related party transaction is entered into on terms no less favorable to EuroBancshares than terms generally available to an unaffiliated third-party under the same or similar circumstances; the results of an appraisal, if any; whether there was a bidding process and the results thereof; review of the valuation methodology used and alternative approaches to valuating the transaction; and the extent of the related person's interest in the transaction.

In addition, the Policy establishes some related party transactions, which, under certain circumstances, are deemed to be pre-approved and shall not require review or approval by the Audit Committee, even if the amount involved exceeds \$120,000. Such transactions include: employment of executive officers; director compensation; certain transactions with other companies; ordinary course transactions; certain charitable contributions; transactions where all shareholders receive proportional benefits; and regulated transactions.

Certain of our officers, directors and principal stockholders and their affiliates have had transactions with Eurobank, including borrowings and investments in certificates of deposit. Our management believes that all such loans and investments have been and will continue to be made in the ordinary course of business of Eurobank on substantially the same terms, including interest rates paid and collateral required, as those prevailing at the time for comparable transactions with unaffiliated persons, and do not involve more than the normal risk of collectibles or present other unfavorable features. Therefore, we believe that all of these transactions comply with Section 402 of the Sarbanes-Oxley Act or have been made pursuant to a valid exception from Section 402 of the Sarbanes-Oxley Act.

Two of our directors, William Torres Torres and Pedro Feliciano Benítez are principals in corporations that own certain real estate of which portions are leased to Eurobank. A corporation controlled by Mr. Torres received lease payments from us totaling approximately \$133,000 during each of the fiscal years 2007 and 2006, and \$129,000 in 2005. Another corporation controlled equally by Mr. Torres and Mr. Feliciano received lease payments from the Bank in the amount of \$56,000 during 2007, and \$88,000 and \$96,000 for the years 2006 and 2005, respectively. In addition, during 2006, a total of \$225,000 in consulting fees on lean processes re-engineering was paid to a corporation controlled by Mr. Torres. The lease agreements between Eurobank and the corporations controlled by Mr. Torres and Mr. Feliciano were approved in 2001 and 2002 complying with regulatory requirements at the time the contracts were entered. Although we did not have a formal policy during 2006, the consulting agreement between Eurobank and the corporation controlled by Mr. Torres was reviewed and ratified by the Compensation Committee of our Board of Directors. This review and ratification was documented in the minutes to the Compensation Committee. We believe that the terms of the leases between Eurobank and the corporations controlled by Mr. Torres and Mr. Feliciano, and the terms of the consulting agreement between Eurobank and the corporation controlled by Mr. Torres, are on an arm's-length basis.

Additionally, during 2007 and 2006, we used, in the ordinary course of business, the legal services of the law firm J. Fernández & Asociados, of which its partner, Julio Fernández, is the son-in-law of William Torres, a director of EuroBancshares. The fees paid to J. Fernández & Asociados for fiscal years 2007 and 2006 amounted to approximately \$320,000 and \$213,000, respectively. All fees paid to J. Fernández & Asociados during 2007 and approximately \$207,000 in 2006 were paid by our clients in connection with mortgage loan transactions.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes of ownership with the SEC. Our officers, directors and 10% shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms so filed.

Based solely on review of copies of such forms received and written representation letters from executive officers and directors, we believe that, during the last fiscal year, all filing requirements under Section 16(a) applicable to our officers, directors and 10% shareholders were timely met, except as follows:

- On December 31, 2007, stock options to purchase the same number of common stock of EuroBancshares were granted to the following executive officers and directors of EuroBancshares. Through administrative error, their statements of changes in beneficial ownership on Form 4's were filed late.

Optionee	Title at the Time of Grant	Number of Options
Rafael Arrillaga-Torrens Jr.	Chairman of the Board, President and Chief Executive Officer	30,000
Antonio R. Pavía Biblioni	Director	6,000
Diana López-Feliciano	Director	6,000
Juan Ramón Gómez-Cuétara Aguilar	Director	6,000
Luis F. Hernández Santana	Director	6,000
Pedro Feliciano Benítez	Director	6,000
Plácido González Córdova	Director	6,000
Ricardo Levy Echeandía	Director	6,000
William Torres Torres	Director	6,000
Yadira R. Mercado Piñeiro	Executive Vice President, Chief Financial Officer and Corporate Secretary	25,000
Luis J. Berrios López	Executive Vice President and Chief Lending Officer	12,500
Félix M. León	Executive Vice President of Operations	5,000

INDEPENDENT PUBLIC ACCOUNTANTS

Our Audit Committee appointed Crowe Chizek and Company LLP as our independent auditors for the fiscal year ended December 31, 2007. In connection with the audit of our 2007 financial statements, we entered into an engagement letter which sets forth the terms by which Crowe Chizek and Company will perform audit services for EuroBancshares. Through this engagement letter, services to be provided by Crowe Chizek and Company LLP were made extensive to subsequent fiscal years, until either the Audit Committee or Crowe Chizek and Company terminate the agreement or mutually agree to the modification of the terms of said engagement contract.

Agreement on terms by which audit services will be provided by Crowe Chizek and Company LLP is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On May 26, 2006, EuroBancshares dismissed KPMG LLP ("KPMG") as its independent registered public accounting firm, and selected Crowe Chizek and Company, LLC ("Crowe Chizek") to serve as its new independent registered public accounting firm. The dismissal of KPMG and the engagement of Crowe Chizek were authorized and approved by the Audit Committee of the Board of Directors of EuroBancshares primarily as a result of the company's efforts to manage its ongoing fees, costs and expenses associated with its accounting and annual audit process.

KPMG's reports on the consolidated financial statements of EuroBancshares as of and for the years ended December 31, 2005 and 2004 did not contain any adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principle, except as follows:

- KPMG's report on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005 concluded that EuroBancshares had not maintained effective internal control over financial reporting as of

that date due to the effect of a material weakness identified by management during its assessment of EuroBancshares' internal controls over financial reporting, and contains an explanatory paragraph that states:

As of December 31, 2005, the Company identified a material weakness in its internal control over financial reporting related to determining the allowance for loan and lease losses, resulting from the following matters:

- The Company did not maintain sufficient documentation to support the monitoring of the recent loss trends experienced in loan and lease portfolios;
- There was a lack of controls over the segregation of the commercial real estate/other commercial loan portfolios used for determining the general allowance for loan losses; and
- EuroBancshares did not maintain adequate documentation to support the unallocated portion of the allowance for loan and lease losses.

These deficiencies resulted in a misstatement in the allowance for loan and lease losses in the Company's preliminary December 31, 2005 financial statements and resulted in more than a remote likelihood that a material misstatement of its consolidated financial statements would not have been prevented or detected.

As a result of the material weakness described above, EuroBancshares' internal control over financial reporting was not effective as of December 31, 2005.

- (ii) KPMG's report on the consolidated financial statements as of December 31, 2004 contained a separate paragraph stating that "the Company adopted the provision of Financial Accounting Standards Board's Interpretation No. 46R, *Consolidation of Variable Interest Entities*, as of December 31, 2003."

In Item 9A of EuroBancshares' Annual Report on Form 10-K for the year ended December 31, 2005, management reported that it had assessed the effectiveness of EuroBancshares' internal control over financial reporting as of December 31, 2005 and had identified a material weakness in internal control over financial reporting as described above. The material weakness resulted in an adverse opinion from KPMG on the effectiveness of EuroBancshares' internal control over financial reporting as of December 31, 2005.

In addition, for the year ended December 31, 2004, KPMG examined and attested to assertions made by management of Eurobank concerning the effectiveness of the institution's internal control structure and procedures for financial reporting in connection with its compliance reporting obligations under Section 36 of the Federal Deposit Insurance Act. EuroBancshares disclosed in Item 9A of its Annual Report on Form 10-K for the year ended December 31, 2004, that in making its assessment of internal control over financial reporting, management of Eurobank identified a deficiency related to accounting for certain derivative financial instruments that were acquired in connection with the acquisition of BankTrust in May 2004 under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 133"). Specifically, the deficiency resulted from the lack of adequate controls designed to ensure that the documentation, monitoring and evaluation required by generally accepted accounting principles were properly maintained for the term of the respective derivative financial instrument and that such documentation provides reasonable assurance to support the ongoing monitoring of the Bank's hedging activities. Management of the bank concluded that the amounts involved with respect to these derivative financial instruments are not material for the periods reported and that prior 2004 interim financial statements need not be revised. Management evaluated the impact of this deficiency on Eurobank's assessment of internal control over financial reporting and concluded that the control deficiency described above represented a material weakness. Accordingly, management concluded that, as of December 31, 2004, Eurobank's internal control over financial reporting may not be effective.

During the years ended December 31, 2005 and 2004 and through May 26, 2006, there were (i) no disagreements with KPMG on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of KPMG, would have caused

KPMG to make reference thereto in their reports on EuroBancshares' financial statements for such years and (ii) no reportable events within the meaning set forth in Item 304(a)(1)(v) of Regulation S-K, except as described above.

Auditor Fees and Services

The following table shows the fees paid or accrued by us for the audit and other services provided by our independent auditors for fiscal years 2007 and 2006.

	2007	2006	
	Crowe Chizek	Crowe Chizek	KPMG
Audit Fees	\$624,200	\$550,000	\$38,000
Audit-Related Fees	25,800	25,000	13,400
Tax Fees	-	-	-
All Other Fees	-	-	-
Total	-	-	-
Additional Fees ⁽¹⁾	-	-	9,600

- (1) During 2006, these fees corresponded to additional expenses billed by our former auditor in connection with their consent to the incorporation by reference in our registration statement of their report dated March 16, 2006, with respect to the consolidated balance sheet of EuroBancshares, Inc. as of December 31, 2005, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2005.

As defined by the SEC, (i) "audit fees" are fees for professional services rendered by the company's principal accountant for the audit of the company's annual financial statements and review of financial statements included in the company's Form 10-Q, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) "audit-related fees" are fees for assurance and related services by the company's principal accountant that are reasonably related to the performance of the audit or review of the company's financial statements and are not reported under "audit fees;" (iii) "tax fees" are fees for professional services rendered by the company's principal accountant for tax compliance, tax advice, and tax planning; and (iv) "all other fees" are fees for products and services provided by the company's principal accountant, other than the services reported under "audit fees," "audit-related fees," and "tax fees."

Under applicable SEC rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditors in order to ensure that they do not impair the auditors' independence. The SEC's rules specify the types of non-audit services that an independent auditor may not provide to its audit client and establish the Audit Committee's responsibility for administration of the engagement of the independent auditors.

Consistent with the SEC's rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent auditors to us or any of our subsidiaries.

OTHER MATTERS

To the best knowledge, information and belief of the directors, there are no other matters which are to be acted upon at the annual meeting. If such matters arise, the form of proxy provides that discretionary authority is conferred on the designated persons in the enclosed form of proxy to vote with respect to such matters.

We have received no notice of any other items submitted for consideration at the meeting and except for reports of operations and activities by management, which are for informational purposes only and require no action of approval or disapproval, and consideration of the minutes of the preceding annual meeting for approval, which may involve technical corrections to the text where actions taken were incorrectly recorded, but which require no action of approval or disapproval of the subject matter, management neither knows of nor contemplates any other business that will be presented for action by the stockholders at the annual meeting. If any further business is

properly presented at the annual meeting, the persons named as proxies will act in their discretion on behalf of the stockholders they represent.

STOCKHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING OF STOCKHOLDERS

Our 2009 annual meeting of stockholders is expected to be held in May 2009. We must receive by December 22, 2008 any stockholder proposal intended to be presented at the next annual meeting of stockholders for inclusion in our proxy materials. Proposals must comply with the proxy rules relating to stockholder proposals, including Rule 14a-8 under the Securities Exchange Act of 1934, in order to be included in our proxy materials. Proposals should be delivered to EuroBancshares, Inc., State Road PR-1 Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926, Attn: Corporate Secretary, prior to the specified deadline.

SEC rules and regulations provide that if the date of our 2009 annual meeting is advanced or delayed more than 30 days from the date of the 2008 annual meeting, stockholder proposals intended to be included in the proxy materials for the 2009 annual meeting must be received by us within a reasonable time before we begin to print and mail the proxy materials for the 2009 annual meeting. We will disclose that change in the earliest possible Quarterly Report on Form 10-Q, upon our determination that the date of the 2009 annual meeting will be advanced or delayed by more than 30 days from the date of the 2008 annual meeting.

Under our bylaws, and as permitted by the rules of the SEC, certain procedures are provided that a stockholder must follow to nominate persons for election as directors or to introduce an item of business at an annual meeting of stockholders. These procedures provide that nominations for director and/or an item of business to be introduced at an annual meeting of stockholders must be submitted in writing to our Secretary at our principal executive offices. With respect to director nominations, we must receive the notice of your intention to introduce a nomination at our 2009 annual meeting no later than:

- 70 days in advance of the 2009 annual meeting if at least 80 days' public disclosure of the date of the meeting is given to the stockholders; or
- in the event that less than 80 days' notice of the date of the meeting is given to our stockholders, the close of business on the 10th day following the earlier of (i) the day on which such notice of the meeting is first made or (ii) the day on which public disclosure of the date of the meeting is first made.

The notice of a nomination for election of a director must contain the following information:

- all information relating to the nominee that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected);
- the name and address of the stockholder making the nomination; and
- the class and number of shares of our capital stock that are beneficially owned by the stockholder making the election.

With respect to other items of business, we must receive the notice of your intention to introduce an item of business at our 2009 annual meeting no later than 70 days in advance of the 2009 annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 20 days or delayed by more than 60 days from the anniversary date of this year's meeting, not later than the close of business on the later of (i) the 70th day prior to such annual meeting or (ii) the 10th day following the day on which public disclosure of the date of the annual meeting is first made.

The notice of a proposed item of business must contain the following information:

- a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;
- the name and address of the stockholder making the nomination;
- the class and number of shares of our capital stock that are beneficially owned by the stockholder making the election; and
- any material interest of such stockholder in such business.

ADDITIONAL INFORMATION

A copy of our 2007 annual report is being mailed with this proxy statement to each stockholder of record. Stockholders not receiving a copy of the annual report may obtain one without charge. Our annual report on Form 10-K is also accessible through our website at www.eurobankpr.com. Requests and inquiries should be addressed to: Investor Relations, State Road PR-1 Km. 24.5, Quebrada Arenas Ward, San Juan, Puerto Rico 00926, (787) 751-7340.

APPROVAL OF THE BOARD OF DIRECTORS

The contents of the proxy statement have been approved and our Board of Directors has authorized the mailing thereof to our stockholders.

By Order of the Board of Directors,



Rafael Arrillaga-Torréns, Jr.
Chairman of the Board, President and Chief
Executive Officer

San Juan, Puerto Rico
April 22, 2008

APPENDIX A

Nominating and Governance Committee Charter

Purpose

The primary purpose of the Governance and Nominating Committee shall be (1) determine the cash and non-cash compensation of the company's executive officers, to identify and recommend to the Board individuals qualified to serve as directors of the Corporation and on committees of the Board; (2) evaluate the performance of the company's executive officers and assess management succession planning to advise the Board with respect to Board composition, procedures and committees; (3). recommend to the board of directors the cash and non-cash compensation policies for the non-employee directors, and to advise the Board with respect to the corporate governance principles applicable to the Corporation; and (4) exercise the authority of the board of directors with respect to the administration of the company's stock-based and other incentive compensation plans. As used herein, "cash and non cash compensation" includes salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements, retirement benefits and other related benefits and benefit plans to oversee the evaluation of the Board and the Corporation's management.

Composition

At least three members. The Committee shall have at least three members, including the chairperson, who is appointed by the Board on the recommendation of the Governance and Nominating Committee. The committee members shall appoint a committee member as chairperson by a majority vote of the authorized member of committee members. Such chairpersons will also act as a Lead Independent Director of the Board of the Directors.

Independence. All committee members shall be independent as defined in the Nasdaq listing standards, as the same may be amended from time to time (the "listing standards"). In addition, all committee members shall qualify as "nonemployee directors" within the meaning of SEC Rule 16b-3, and as "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

Appointment. Subject to the requirements of the listing standards, the board may appoint and remove committee members in accordance with the company's bylaws. Committee members shall serve for such terms as may be fixed by the board or at the will of the board if no specific term is fixed.

Committee Functions

The Committee shall:

Review Board. Review with the Board of Directors, on an annual basis, the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board.

Nominate. Identify, screen, and recommend to the Board director nominees for election by the stockholders or appointment by the Board, as the case may be, pursuant to the Bylaws of the Corporation, which selections shall be consistent with the Board's criteria for selecting new directors. Such criteria include the possession of such experience, knowledge, skills, expertise, mature judgment, acumen, character, integrity and diversity so as to enhance the Board's ability to manage and direct the affairs and business of the Corporation, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties and/or to satisfy any independence requirements imposed by law, regulation or NASDAQ listing requirement.

Stockholders Nominations. Review stockholders nominations for members of the Board.

Continue service as director. Review the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a significant change in status, including but not limited to an employment change, and recommend whether or not the director should be re-nominated.

Performance. Respond to any concerns of directors with the performance of the Board.

Size and composition of the Board. Make recommendations to the Board regarding the size and composition of each standing committee of the Board, including the identification of individuals qualified to serve as members of a committee, including the Committee, and recommend individual directors to fill any vacancy that might occur on a committee, including the Committee.

Governance principles. Develop and review periodically the corporate governance principles adopted by the Board to assure that they are appropriate for the Corporation and comply with the requirements of the NASDAQ, and recommend any desirable changes to the Board.

Recommend. Consider any other corporate governance issues that arise from time to time, and develop appropriate recommendations for the Board.

Evaluate. Oversee the evaluation of the Board as a whole and the management of the Corporation, including the Chief Executive Officer of the Corporation.

Advise. Advise the Chairman of the Board regarding meeting dates, agenda and the character of information to be presented at Board meetings.

Management continuity. Review plans and personnel for management continuity and development.

Meetings, Reports And Resources Of The Committee

Meetings. The committee shall meet at least twice annually, and as often as necessary to carry out its responsibilities. The committee may also hold special meetings or act by unanimous written consent as the committee may decide. Except as otherwise set forth in this charter or as required by the listing standards or applicable law, the committee may meet in separate executive sessions with other directors, the chief executive officer and other company employees, agents or representatives invited by the committee.

Procedures. The committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with Puerto Rico's General Corporation Law, this charter, the bylaws, applicable laws or regulations, or the listing standards. The chairperson or majority of the committee members may call meetings of the committee. A majority of the authorized number of committee members shall constitute a quorum for the transaction of committee business, and the vote of a majority of the committee members present at a meeting at which a quorum is present shall be the act of the committee, unless in either case a greater number is required by this charter, the bylaws or the listing standards. The committee shall keep written minutes of its meetings and deliver copies of the minutes to the corporate secretary for inclusion in the corporate records.

Reports. The committee shall provide to the board at an appropriate time prior to preparation of the company's proxy statement for its annual meeting the report of the compensation committee which must be included in the proxy statement. The committee shall also report to the board annually the results of an annual review by the committee of its own performance. The committee shall also report to the board on the major items covered by the committee at each committee meeting, and provide additional reports to the board as the committee may determine to be appropriate.

Committee Access and Resources. The committee is at all times authorized to have direct, independent and confidential access to the company's other directors, management and personnel to carry out the committee's purposes. The committee is authorized to obtain at the company's expense compensation surveys, reports on the design and implementation of compensation programs for the company's directors, officers and employees, and other data and documentation as the committee considers appropriate. The committee is authorized to retain at the company's expense independent counsel or other advisers selected by the committee for matters related to the committee's purposes. The committee shall also have authority to retain and terminate any compensation consultant to assist in the evaluation of director, officer or employee compensation, including authority to approve such consultants' reasonable fees and other retention terms, all at the company's expense.

Evaluation Of The Committee

The Committee shall, on an annual basis, evaluate its performance under this Charter. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The Committee shall address all matters that the Committee considers relevant to its performance, including the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner. The Committee shall deliver to the Board a report setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Corporation's or the Board's policies or procedures. The report to the Board may take the form of an oral report by the Chairman of the Committee or any other member of the Committee designated by the Committee to make this report.

Adopted by Resolution of the Board of Directors on November 26, 2007.



Corporate Directory

COMPANY HEADQUARTERS

State Road PR-1, Km. 24.5
San Juan, Puerto Rico 00926

INVESTOR INQUIRIES

General inquiries from stockholders and the investment community may be directed to:

Yadira Mercado Piñeiro
Executive Vice President, Chief Financial Officer
and Corporate Secretary

Telephone: (787) 751-7340
EuroBancshares, Inc.
State Road PR-1, Km. 24.5
San Juan, Puerto Rico 00926

Visit us online at
www.eurobankpr.com

TRANSFER AGENT

American Stock Transfer & Trust Company
59 Maiden Lane - Plaza Level
New York, NY 10038
Telephone: 1-800-937-5449
(718) 921-8200
www.amstock.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Crowe Chizek and Company LLP
6750 North Andrews Avenue, Suite 200
Fort Lauderdale, Florida 33309-2180

SPECIAL COUNSEL

Hunton & Williams LLP
401 Congress Avenue, Suite 2500
Austin, Texas 78701

STOCK LISTING

Common: NASDAQ Global Select Market
Stock Symbol: EUBK

Annual Report on Form 10-K

A copy of EuroBancshares, Inc.'s Annual Report on Form 10-K, including the audited consolidated financial statements for the years ended December 31, 2007 and 2006, is included herewith and is available on EuroBancshares' Internet website at www.eurobankpr.com under the Investor Relations page.

2007 ANNUAL REPORT

Bank Liaison: Yadira Mercado, EVP and CFO
Editorial and Writing: Anne and Ronald Chevako
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